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THE FISCAL PROBLEM IN ILLINOIS

STUDIES IN SOCIAL LEGISLATION

PUBLISHED BY THE

NATIONAL INDUSTRIAL CONFERENCE BOARD, INC.

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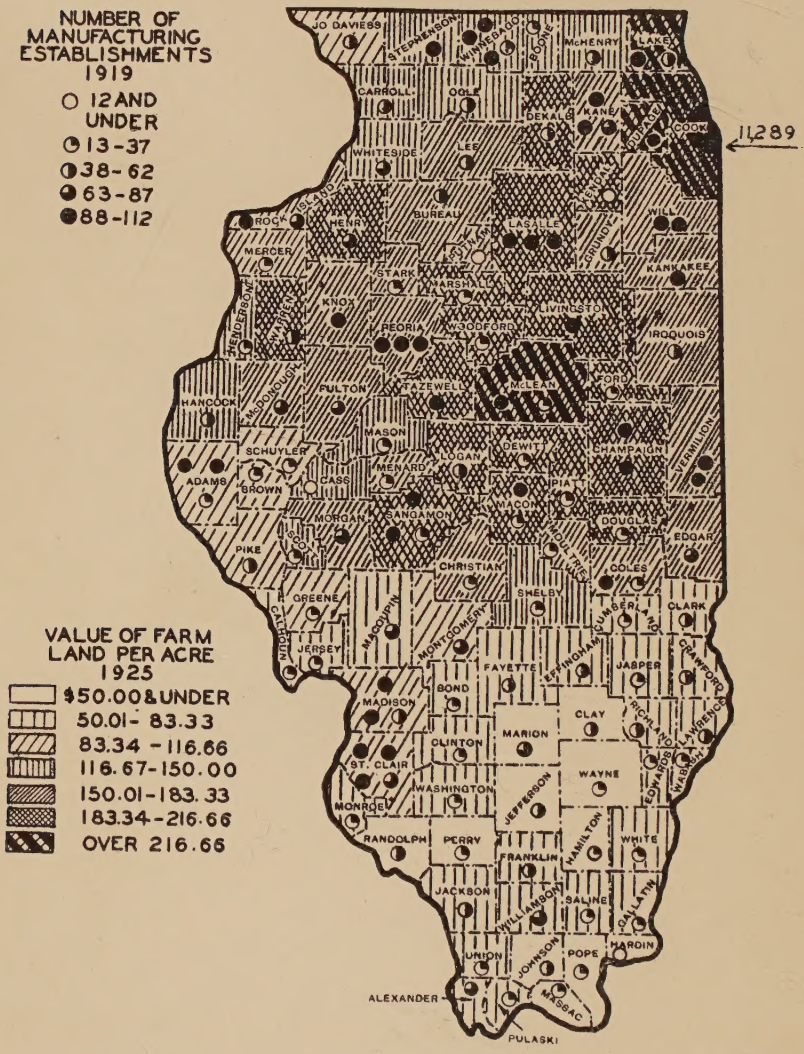
Chart 1: Illinois Farm Values and Manufacturing Establishments—By Counties

(National Industrial Conference Board)



In counties represented by more than one dot, each additional black dot represents 100 manufacturing establishments. Thus, Lake County, in the upper right-hand corner, has between 138 and 162 establishments.

THE FISCAL PROBLEM IN ILLINOIS

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FOREWORD

FOR two decades questions of taxation have stood well to the fore among the public issues of the day in Illinois. Three times within the past ten years the people of the state have been called upon to vote on constitutional provisions relating to taxation. There are few who are satisfied with the present organization of the state's tax system, but effective action toward improvement has been hampered by insufficient information about the actual situation and about the possibilities of eliminating its objectionable features.

The first requisite for sound judgment on the vital problems of public finance is accurate knowledge of the facts. The National Industrial Conference Board has long recognized this need in relation to the nation's finances and, in a series of volumes upon the cost of government in the United States, it has sought to present an impartial statement of the facts bearing upon the nation's fiscal situation. More recently, at the request of public-spirited organizations in several states where problems of public finance were particularly acute, the Conference Board has also made surveys of fiscal conditions in Wisconsin, West Virginia and Delaware. The present study of "The Fiscal Problem in Illinois" is an addition to this series. Other similar studies are now in progress.

The value of these state-wide investigations reaches beyond the sphere of local interest and local application. State and local expenditures and revenues now exceed those of the Federal Government and continue to increase, whereas federal expenditures and revenues are being reduced; hence the importance of close scrutiny of state and local fiscal conditions.

The data used in this volume, unless otherwise indicated, are official in character. They have been secured by the Board's tax experts through field investigation, and from

published and unpublished records of public officials, state and local government auditors, county clerks, comptrollers and others. The Conference Board acknowledges with pleasure its obligation to public officials and all others who have co-operated in furnishing the material required. In particular, the Board desires to express its appreciation for the advice and information upon comparative property and income tax laws given by the Corporation Trust Company of New York.

This volume is the result of an investigation conducted by Mr. W. J. Shultz and assistants, of the Conference Board's Research Staff, under the supervision of the Board's Staff Economic Council.

In the preparation of its studies the National Industrial Conference Board avails itself of the experience and judgment of the business executives who compose its membership and of recognized authorities in special fields, in addition to the scientific knowledge and equipment of its Research Staff. The publications of the Board thus finally represent the result of scientific investigation and broad business experience, and the conclusions expressed therein are those of the Conference Board as a body.

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THE FISCAL PROBLEM IN ILLINOIS

INTRODUCTION

ILLINOIS surpasses in population and wealth all the states except New York and Pennsylvania, although it is by no means among the largest states in area. In 1926 the state was estimated to contain nearly six and a half million residents. In 1923 its wealth was figured at over twenty-two billion dollars.

Concentration of population and of wealth intensifies all problems of government, and among them those of public finance. The geographic and economic diversity of the various regions within the state lends further complexity to governmental and fiscal problems. In the north-eastern and central parts of the state, the geologically more recent glacial drift sheets have produced a soil that is perhaps the richest in the entire country. In the southern part of the state, on the other hand, the soils resulting from the earlier drift sheets are much inferior in quality, and in some sections the flatness of the country has necessitated extensive tile drainage. Such differences in the qualities of the soil are reflected in land values and assessments. Chart 1 shows the value of farm land per acre in 1925 and gives a striking picture of these differences. In four counties, Lake, DuPage, Cook and McLean, farm land was valued at an average of over $216.66 per acre. To some extent this high valuation of farm lands reflects the proximity to urban centers, yet it may be noted that all the counties in which the value of farm land exceeded on the average $183.33 per acre are situated in the northern and central portions of the state. On the other hand, the ten counties in which farm land averaged less than $50 per acre —Clay, Marion, Wayne, Jefferson, Perry, Randolph, Johnson, Pope, Hardin, and Massac—are all in the southern part of the state.

Industrial properties are necessarily still more unevenly distributed than farm values. In 1919, the most recent year for which figures are available by counties, there were 18,593 manufacturing establishments in Illinois, of which 11,289 were located in Cook County, in and about the city of Chicago. Of the remaining seven thousand establishments, 375 were located in St. Clair County, in and about East St. Louis; 337 in Winnebago County, mainly in the city of Rockford; 295 in Peoria County, chiefly in Peoria City; and 289 were located in LaSalle County. Thus approximately two-thirds of the manufacturing establishments in the state were found in five counties, and the rest were distributed among ninety-seven other counties. The years which have intervened since 1919 have no doubt greatly increased the disproportion between the five counties named and the other ninety-seven. Moreover, figures dealing only with the number of manufacturing establishments do not tell the entire story of the distribution of manufacturing industry. The sections which have the greatest number of establishments have also the largest establishments. If the *value* of manufacturing plants could be taken into consideration, the disproportion already noted between industrial sections and other parts of the state would be magnified many times.

Furthermore, it is necessary to consider the economic diversification which results from the existence of mining properties. In bituminous coal production, Illinois exceeds all other states except Pennsylvania and West Virginia. Coal mining predominates in the southern counties. Again, Illinois occupies a place of some importance in the output of petroleum, though the yield in the state has been steadily decreasing during recent years, and the Illinois fields no longer enjoy the high rank that once was theirs. Nevertheless, the petroleum industry at present is by no means an insignificant factor in the state's economic life. Nearly eight million barrels of crude oil were produced in 1925.

Governmental Agencies

The state and local governmental organization of Illinois presents a picture of complexity and a consequent over-

lapping of fiscal and administrative authorities which is paralleled in few other states. Almost every year has seen the number of subsidiary governmental agencies increased by legislative enactment.

This development, which can hardly be deemed a healthy growth, has occurred in part through a natural subdivision of the increasing functions of government. However, it has probably resulted in greater part from the efforts of local governments to escape the five mill county tax levy limitation.[1] As the law stands at present (General Revenue Act, Sec. 121), the county levy, exclusive of levies for the payment of principal and interest on the state-aid highway debt, is limited to 5 mills (on the 50% valuation); the county levy and the state-aid road levy together may not exceed seven and one-half mills. When a county deems its activities too closely restricted by this limitation, pressure arises for the creation of new governmental agencies beyond the sphere of the levy limitation, to undertake one or another of the expanding functions of the county government. Thus levee and drainage districts, park districts and mosquito-eradication districts have been erected partly with the purpose of circumventing the intent of the limitation. In fact, as early as 1901, this situation was recognized and an effort was made to set a limitation for the aggregate levies of superimposed taxing bodies by the Juul law.[2]

This hair-splitting subdivision of local authority and function complicates the study of Illinois government and finances and renders it impossible to present a picture, complete in all its details, of the Illinois fiscal problem. More important, however, is the fact that this governmental complexity practically nullifies the control of the voters of Illinois over the officials who handle and disburse the taxpayer's money.

The Fiscal Problem

The fiscal problem in Illinois has two principal aspects. In the first place the taxpayers of Illinois are faced with a grow-

[1] This tendency is further exaggerated by the 5% debt limitation; see below, p. 33.

[2] The Juul Law is discussed in full in Chapter II.

ing volume of state and local expenditures and with the complexity of local governmental agencies which has to a great extent withdrawn from the voters the control over local finances and has raised the question of creating effective central checks upon local fiscal bodies. In the second place, the Illinois general property tax in its present form calls for study and improvement.

Year by year, state and local expenditures in Illinois have increased. Such an increase in itself is not necessarily to be condemned. Approval or disapproval must be reserved until the purposes of such expenditures, their efficiency and their relation to needs and resources of the state, are known. An analysis of the expenditures of the state and local governments in Illinois is therefore made in Chapter I of this study. Wherever possible, expenditures in Illinois are compared with those in other states, since Illinois is by no means the only state that faces the problem of increased public expenditures.

The authorization of the expenditures of state governments is more or less done under the eye of the electorate. Publicity and wide discussion familiarize the taxpayer with the issues involved, and he has an opportunity to guard his interests. The fiscal activities of the subsidiary local governments are more likely to escape his attention. Extravagance in the authorization of expenditures and inefficiency in fiscal administration are the results. Several states have taken cognizance of this situation and have provided for varying degrees of centralized control over local fiscal activities by state or county governmental agencies. These experiments and the application of this principle to the fiscal organization in Illinois are described in Chapter II.

Like all other states, Illinois has had frequent recourse to borrowing in order to finance expenditures for capital construction. In Chapter III the long-term debt that has been incurred in Illinois is compared with the debt of other states. It is further pointed out that Illinois occupies a somewhat unenviable position in the matter of floating debt. Since the receipt of taxes by the treasury occurs at irregular intervals in the course of the fiscal year, while expenditures must be made more regularly, the governments of Illinois, like those

of other states, have resorted to short-term borrowings or anticipatory tax warrants to cover the gap between expenditures and collections. Unlike the governments of most other states, however, the state and local governments in Illinois have extended this practice until it has become, not merely a supplement to the tax system, but a partial substitute for it as a measure of financing expenditures. Illinois has thus accumulated a heavy floating indebtedness which adds to its debt problems. The issues involved in this practice are also considered in Chapter III.

The backbone of the revenue system is found in the provisions of the state Constitution relating to taxation. The body of the system supported by this backbone is found in legislative enactments. In Chapter IV the constitutional and legislative tax provisions of Illinois are studied in detail.

State and local tax receipts and the source of these revenues are analyzed in Chapter V. The ultimate burden of these taxes, particularly in relation to agricultural and business enterprises, is noted and compared with the situation in other states. The varying rates of property taxation in the different sections of the state are also discussed in this chapter.

Volumes have been written upon the problems of the system of general property taxation. All generalizations must, however, be modified by the special conditions found in individual states and localities. In Chapter VI the difficulties of the general property tax, as it is levied at present in Illinois, are considered. Since the greatest abuses and injustices arise through the assessment and taxation of personal property, more space has been given to this phase of the problem than to those which relate to the assessment and taxation of real property.

To bring an abuse to the light may indeed be to take the first step towards its correction, but this alone is not sufficient. An effort should be made to indicate possible methods of reform. Because of their complexity, fiscal problems rarely admit of simple, all-inclusive solutions. Instead, each problem must rather be approached from as many angles as the circumstances permit. In Chapter VII the possible approaches to the reform of the Illinois general property tax

are indicated. Consideration is given to the immediate problems of administrative reform and to the strengthening of the machinery of assessment and collection in order to check the more flagrant forms of tax evasion. Finally, alternative methods of taxation are noted, and these are compared and contrasted with the general property tax.

CHAPTER I

STATE AND LOCAL EXPENDITURES IN ILLINOIS

THE taxpayer of Illinois who seeks to ascertain what is paid out for public purposes by all the various organs of government in the state, and where the money that is being spent comes from, will discover that he has undertaken a difficult and discouraging task, that few of these fiscal agencies have published statistical records that cover a series of years, and that the available records are often inaccurate, usually incomplete, and generally so arranged that it is difficult for him to make the comparisons he desires. The officials who have assembled the records seem, in too many cases, to have had no proper appreciation of their importance or significance and to have made no effort to verify the figures submitted to the collecting agency. Frequently the classifications of the data are faulty and meaningless; obvious defects in the statements continue from year to year, while the careless method of assembling and presenting the data often results in inaccuracy of the figures printed and renders them practically valueless for purposes of scientific investigation.

Under such circumstances the taxpayer who seeks to know the facts regarding state and local expenditures is likely to throw up his hands in despair and lapse into indifference. The fog of uncertainty that surrounds the facts obscures the way to a more efficient and economical management of government. It is in the effort to dispel this fog as far as possible that the present study has been undertaken.

State Government Expenditures

The growing volume of expenditures of the state government of Illinois reflects a situation that is found in practically

Table 1: Expenditures of the Illi

(Source: Illinois State Auditor's Re

Items of Expenditure		Fiscal Year Sept. 30, 1914	Sept. 30, 1915	Sept. 30, 1916	Sept. 30, 1917
General government	capital	$17,124	$33,747	$171,927	$116,742
	maintenance	2,509,650	2,604,839	2,493,098	3,901,141
Protection[1]	capital	174,651	627,219	519,111	518,359
	maintenance	3,515,356	3,819,642	4,306,707	4,528,503
Education[2]	capital	777,197	903,918	735,435	904,919
	maintenance	6,282,174	5,782,220	6,776,424	7,164,786
Highways[2]	capital	7,498	..	..	..
	maintenance	150,613	850,700	848,336	1,297,739
Economic developments[3]	capital	350,960	61,117	84,355	24,450
	maintenance	574,336	1,829,916	1,202,424	942,517
Social welfare[2]	capital	591,617	1,564,300	1,324,956	1,226,061
	maintenance	3,704,508	4,060,246	4,419,901	4,630,045
Miscellaneous	capital	24,639	39,862	17,506	33,469
	maintenance	84,849	604,930	4,536	52,547
Net total	capital	$1,943,686	$3,230,163	$2,853,290	$2,824,000
	maintenance	16,821,486	19,552,493	20,051,426	22,517,278
Combined net total		$18,765,172	$22,782,656	$22,904,716	$25,341,278
Public utilities[4]	capital	..	1,254	5,000	4,398
	maintenance	51,212	47,225	69,423	36,720
Combined public utilities		51,212	48,479	74,423	41,118
Debt redemption		..	..	..	..
Interest		119,639	104,004	103,679	87,721
Gross total		$18,936,023	$22,935,139	$23,082,818	$25,470,117
					Percentage Distribution of Net
Capital		10.4	14.2	12.5	11.1
Maintenance		89.6	85.8	87.5	88.9
Combined net total		100.0	100.0	100.0	100.0
					Percentage Distribution of Combined
General government		13.5	11.6	11.6	15.9
Protection		19.7	19.5	21.1	19.9
Education		37.6	29.4	32.8	31.9
Highways		0.8	3.7	3.7	5.1
Economic developments		4.9	8.3	5.6	3.8
Social welfare		22.9	24.7	25.1	23.1
Miscellaneous		0.6	2.8	0.1	0.3
Combined net total		100.0	100.0	100.0	100.0
					Percentage Distribution of Com
General government		13.3	11.5	11.5	15.8
Protection		19.5	19.4	20.9	19.8
Education		37.3	29.2	32.6	31.7
Highways		0.8	3.7	3.7	5.1
Economic developments		4.9	8.2	5.6	3.8
Social welfare		22.7	24.5	24.9	23.0
Miscellaneous		0.6	2.8	0.1	0.3
Public utilities		0.3	0.2	0.3	0.2
Debt redemption		..	..	..	..
Interest		0.6	0.5	0.4	0.3
		100.0	100.0	100.0	100.0

[1] Includes regulation of corporations and occupations, labor regulation and state employment agencies, as well as police and fire protection, soldiers' and sailors' relief, and the $55,000,000 soldiers' bonus distributed in 1924 and 1925.

[2] Federal aid not subtracted.

[3] Agricultural encouragement and development, and conservation of natural resources.

[4] Toll canals.

ports and U. S. Bureau of the Census)

Ended

Sept. 30, 1918	June 30, 1921	June 30, 1922	June 30, 1923	June 30, 1924	June 30, 1925	June 30, 1926[a]
$42,912	..	..	$64,247	$221,518	$46,087	$5,250,439
2,886,594	..	..	4,438,295	3,969,147	4,922,399	
491,708	..	..	937,334	1,619,383	1,279,802	7,183,830
4,580,867	..	..	6,359,679	52,383,963	15,911,099	
669,488	$630,345	$955,381	1,668,377	1,819,561	2,761,810	
6,911,554	9,331,914	10,696,944	14,789,002	11,684,888	13,797,022	17,785,097
20,450	13,894,260	17,246,195	26,504,249	34,178,875	36,989,768	
937,989	729,713	922,743	1,192,012	1,937,007	2,114,063	26,466,873
37,586	68,866	40,773	147,475	127,727	87,278	
1,057,818	1,412,647	1,797,511	1,656,918	2,169,799	2,615,969	3,125,879
574,115	..	..	674,725	1,251,126	880,445	
5,458,198	..	..	7,853,501	8,665,609	8,495,957	9,658,305
57,481	..	..	..	61,314	..	
73,745	..	..	51,675	99,574	196,987	22,773
$1,893,740	$17,201,703	$21,244,637	$29,996,407	$39,279,504	$42,045,190	..
21,906,765	29,052,999	30,664,406	36,341,082	80,909,987	48,053,496	..
$23,800,505	$46,254,702	$51,909,043	$66,337,489	$120,189,491	$90,098,686	$69,493,196
..	..	..	..	..	..	..
27,782	..	38,054	27,539	30,333	38,107	..
27,782	..	38,054	27,539	30,333	38,107	..
..	..	..	..	320,000	2,526,000	3,643,000
119,309	..	171,163	609,283	1,300,843	3,704,187	5,878,879
$23,947,596	..	$52,118,260	$66,974,311	$121,840,667	$96,366,980	$79,015,075
Expenditures for Capital and Maintenance						
8.0	37.2	40.9	45.2	32.7	46.7	..
92.0	62.8	59.1	54.8	67.3	53.3	..
100.0	100.0	100.0	100.0	100.0	100.0	..
Net Expenditures						
12.3	..	..	6.8	3.5	5.5	7.6
21.3	..	..	11.0	44.9	19.1	10.3
31.9	21.5	22.4	24.8	11.2	18.4	25.6
4.0	31.6	35.0	41.7	30.1	43.4	38.1
4.6	3.2	3.5	2.7	1.9	3.0	4.5
25.3	..	..	12.9	8.3	10.4	13.9
0.6	..	..	0.1	0.1	0.2	..
100.0	100.0	100.0	100.0	100.0	100.0	100.0
bined Gross Expenditures						
12.2	..	..	6.7	3.4	5.2	6.6
21.2	..	..	10.9	44.4	17.8	9.1
31.7	..	22.4	24.6	11.1	17.2	22.5
4.0	..	34.9	41.4	29.6	40.7	33.5
4.6	..	3.5	2.7	1.9	2.8	4.0
25.2	..	..	12.7	8.1	9.7	12.2
0.5	..	..	0.1	0.1	0.2	..
0.1	..	0.1	..	..	..	..
..	..	..	..	0.3	2.6	4.6
0.5	..	0.3	0.9	1.1	3.8	7.5
100.0	..	100.0	100.0	100.0	100.0	100.0

[a] A classification of items in this year differing from the census classification employed for preceding years precludes the division of expenditures into "capital" and "maintenance," and adds slightly to expenditures for "general government" and "education" at the expense of expenditures for other purposes.

every state, owing in large part to the demand on the part of the public for numerous new services from the state, and for services better in quality and more expensive than those heretofore furnished. The lessened purchasing power of the dollar, as compared with the pre-war period, has also increased the number of dollars that must be paid out by governmental bodies to obtain equivalent services and commodities. This increase in the expenditures of the state government is evident from the figures of Table 1, which states the classified expenditures of the state government from 1914 to 1926.

An examination of this table reveals that in 1914[1] the gross total[2] of state expenditures was $18,936,023, and that in 1926 such expenditure amounted to $79,015,075. To what is this marked increase attributable? In the first instance the expense of constructing improved highways, which has fallen mainly upon the state treasury, has been very large in the past six or seven years and has gone far to swell the total expenditure. Furthermore, the payment of $55,000,000 for the soldiers' bonus[3] inflated considerably the totals for 1924 and 1925. However, this was a non-recurring item which may be disregarded as far as the future is concerned. Since the greater part of the soldiers' bonus claims was paid in 1924, the total gross expenditure in 1925 decreased over twenty-five millions from the total of the preceding year, although a new and significant item of $2,526,000 for debt redemption appeared in the record.

Increased Expenditures for Capital Construction

If attention be given to the net expenditure, it will be noted that in recent years a large percentage of the total was devoted to capital construction—construction of a more or

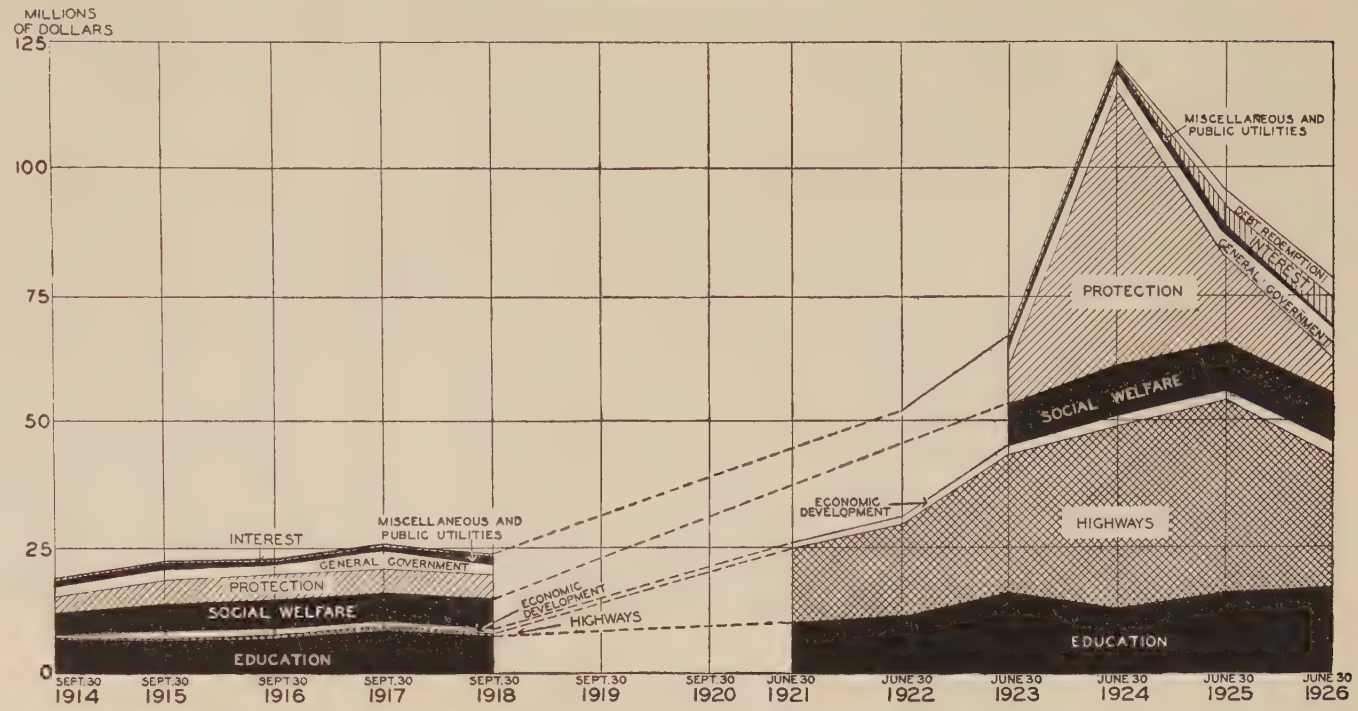
[1] Throughout this study dates in the text and tables refer to fiscal years ended in the given calendar years, unless otherwise indicated.

[2] Throughout this volume a distinction is made between the net total and the gross total of expenditures. The latter includes provision for debt retirement and interest, the former excludes it. The chief reason for separating these items from other expenditures is that the expenditure for which the debt was incurred has already appeared in the net total. The nature of the payments for the service of the public debt, as a provision for past rather than present needs, appears more clearly when these items are set apart from other current expenditures.

[3] On the circumstances of the payment of the soldiers' bonus, see Charles E. Black, "Illinois Soldiers' Bonus," Illinois Blue Book, 1925–26.

CHART 2: EXPENDITURES OF THE ILLINOIS STATE GOVERNMENT, BETWEEN OCTOBER 1, 1913 AND JUNE 30, 1926

(National Industrial Conference Board)



less enduring nature, which may be expected to continue yielding benefits to the people of Illinois during the coming years. Before the state entered upon its road construction program in 1919, its capital expenditures—for government buildings, for school houses, for armories, for improving toll canals—averaged slightly over ten per cent of the net expenditure. In a net total of $23,800,505 expended in the fiscal year ended September 30, 1918, only $1,893,740, or 8%, was spent for construction projects. In 1914, only $158,111, slightly less than one per cent of net expenditures of the year, was spent on state roads and canals. Little or no capital construction was undertaken during the war-time years. Beginning in 1919, however, and in each year until 1925, expenditures for highway construction increased both in amount and in proportion to the other items of the net budget. The recent heavy road construction outlays have markedly increased the proportion of capital to total net expenditures. In 1922, the state government spent $21,244,637, or 40.9% of a net expenditure of $51,909,043, on capital construction. In 1925, capital expenditures amounted to $42,045,190, or to almost one-half of the total net expenditure of the state government. In 1926, the $26,466,873 spent for highways represented 38.1% of the net total.[1]

The expenditures of the state government for education[2] and for social welfare have expanded steadily during the period considered, but they have been overshadowed in volume by the more spectacular increase of expenditures for roads and canals. From $7,059,371 in 1914, the contribution of the state government toward the educational program of the state increased in amount to $16,457,379 in 1923 and to $17,785,097 in 1926, while the percentage of the state's net expenditures applied to education decreased from 37.6% in 1914 to 24.8% in 1923. In 1926, the decrease of the net total of state expenditures and the increase of expenditures for education brought the proportion of these expenditures to the net total up to 25.6%. Charities, hospitals and other social welfare activities required over five million dollars more in 1926 than in 1914. Expenditures for the develop-

[1] A more detailed analysis of expenditures for highways is found on p. 26.

[2] A more detailed analysis of expenditures for education is found on p. 22.

ment and conservation of natural resources amounted to $3,125,879 in 1926, as compared with $925,296 in 1914. General governmental purposes absorbed over two million dollars more in 1926 than in 1914.

Increase in State Indebtedness

Since outlays for capital construction are financed principally by loans, they not only raise the amounts of net and gross expenditure, but also result in an increase of the burden of debt redemption and interest payment. They represent, however, durable benefits. Through the immediate process of taxation and through the prolonged process of debt redemption, a part of the income of the taxpayers of Illinois is being invested by the state government into capital commodities—roads, school buildings and hospitals—that will yield a steady stream of benefits over a considerable period of time. These heavy capital outlays will probably continue for several years, since of $215,000,000 in bonds, authorized to be issued for highway construction and soldiers' bonus, $71,000,000 still remained unissued on July 1, 1926. The burden of debt redemption and interest payment will, of course, be correspondingly greater.

Prior to 1921, the outstanding funded debt of the Illinois state government amounted to only $17,500 and no interest was paid upon it. The interest payments prior to this date which appear in Table 1 were upon the debt to public trust funds amounting to $225,000, and upon the tax warrants issued and retired each year.[1] The amount of these interest payments varied between $87,721 in 1917 and $119,639 in 1914. After 1921, as successive issues of the authorized highway debt and of the soldiers' compensation bonds were marketed, the interest payments increased. In 1922 interest payments were $171,163 and in 1923 they had increased to $609,283, in 1924 to $1,300,843, in 1925 to $3,704,187, and in 1926 they amounted to $5,878,879. Within the space of five years the share of interest payments in the total budget increased from less than one-half of one per cent to 7.3%.

[1] See below, p. 87.

As further installments of the debt already authorized are marketed, this item will continue to increase.

In 1924, the first installment of the state debt was redeemed, amounting to $320,000, or 0.3% of the gross total of that year's expenditures. In 1925, $2,526,000 of bonds were redeemed, and in 1926, $4,643,000. This is an item which must be considered a definite part of the Illinois state budget henceforth.

The appropriations payable out of revenues other than bond issues for the two-year period beginning July 1, 1925 exceed by 19% those voted for the preceding biennium. Bond issues authorized for the former period were greater than for the latter, although it is a matter of speculation as to how much of the authorized total will actually be expended. It is, however, to be foreseen that the expenditures of the state government for the fiscal years 1926 and 1927 will show even higher totals than those registered in the two preceding fiscal years, if the expenditure in these years for the soldiers' bonus be disregarded.

Local Expenditures

No complete statement of the expenditures of the local governments of Illinois can be prepared from data now available. These subsidiary governmental divisions make no reports to the State Auditor or to the State Tax Commission, and few of them publish any statements for public distribution. Yet it is possible to gain some idea of the extent of their combined expenditures by noting the total of their combined tax receipts, their combined borrowings and their estimated combined revenue from fees and non-revenue receipts. The sum of these three items will fix an approximate figure for the year's expenditures. For the first two items definite statistics are available, but there are no statistics of the receipts from fees of office and non-revenue receipts, and this item must be roughly estimated. A detailed examination of Illinois city and county records shows that their fees and non-revenue receipts vary between one-quarter and one-half of the amount of their tax revenues. This proportion is much lower for school and road districts, town-

ships and special civil divisions, since these bodies have fewer fee-receiving offices. That fees and non-revenue receipts amount to twenty per cent of all Illinois local governmental tax receipts is a conservative estimate, and in that case the total expendable receipts of the county and local governments of Illinois in 1922 appear as follows:

Taxes	$235,915,000[1]
Estimated fees and non-revenue receipts	47,183,000
Net borrowing	30,819,500[2]
Total receipts	$313,917,500

The combined gross expenditures of the local governments of Illinois in 1922, then, were about $314.0 millions. The gross expenditures of the state government in this year were $52.1 millions. Of the total combined state and local expenditures of about $366 millions in 1922, the state accounted for about fifteen per cent, and the local governments for about eighty-five per cent. Of the expenditures of the local governments, $173.1 millions,[3] or about fifty-five per cent, fell to the part of cities with populations of over 30,000, while small municipalities, counties, school districts outside of the cities, road districts and minor civil divisions spent about $140 millions, or close to forty-five per cent of the estimated combined total of local governmental expenditures.

These ratios have been by no means constant. In 1902, 8.9% of the year's combined state and local expenditures of $74,860,413 were attributable to the state government and 91.1% to the local governments.[4] The rapid increase of state expenditures as a result of road construction during the three years since 1922, far outstripping the rate of increase for local expenditures, has probably brought the present ratio of the state expenditures close to 20% of the total for all governments within the state. This is approximately the present-day average distribution of expenditures between state and local bodies for all states.[5]

[1] U. S. Bureau of Census, "Wealth, Debt, Taxation: 1922—Taxes Collected," p. 13.

[2] *Commercial and Financial Chronicle*, State and Municipal Compendium, Part I, June, 1923.

[3] U. S. Bureau of the Census, "Financial Statistics of Cities, 1922."

[4] U. S. Bureau of the Census, "Wealth, Debt, Taxation: 1902," p. 980.

[5] National Industrial Conference Board, "Cost of Government in the United States," N. Y., 1926, p. 97.

County Expenditures

With one or two exceptions the one hundred and two county governments in Illinois issue very meagre fiscal reports. Most of them do not even publish in the local papers a full statement of their expenditures. The figures are buried in the files of their auditors' reports. To draw up a combined statement of expenditures for even a few counties, that might show in a general way the distribution of county expenditures, would require time and labor incommensurate with the result.

An indication of the nature and distribution of county expenditures may be had from a study of the county levies. The law requires the general county levy to be subdivided according to purposes,[1] and the amount of the levies, so classified, may be found in the published reports of the boards of county supervisors. Tax levies and expenditures for a number of representative counties are shown in Table 2 for the fiscal year 1924.

This table shows that the three principal purposes for which the counties make levies are general government, highways and social welfare. In the twenty counties, chosen as representative, these three items combined accounted for 94.2% of the total levies. In counties with small budgets the levies for general government and the county highway levy are likely to outweigh levies for social welfare. In counties with large budgets the proportion of the county levies devoted to poor relief, blind relief, mothers' pensions, sanitariums and similar purposes is noticeably greater. It should also be noted that in counties with large budgets a greater proportion of the levies goes to the items of "Protection" and "Economic developments." The average proportion of the levies devoted to the protection of life and property in the twenty counties selected for study was 3.5%. Sangamon County showed the highest proportion, with 5.3%. On the other hand, in a surprisingly large number of the counties with small budgets, not a single item of the classified levy could be considered protective in character. Similarly, whereas the counties with large budgets often make con-

[1] General Revenue Act, Sec. 121.

Classification of Levies and Expenditures	Levies in Three Large Counties			Levies in Three Small Counties			Percentage Distribution of Levies in Twenty Sample Counties[2]	Cook County Expenditures	Percentage Distribution of Cook County Gross Expenditures
	La Salle	Sangamon	Fulton	Brown	Johnson	Hardin			
General government	$145,925	$182,850	$46,950	$14,600	$16,750	$8,180	..	$8,927,664	..
Protection[3]	17,830	22,600	7,900	..	1,150	..	..	1,363,176	..
Education[4]	5,500	..	2,800	..	..	..	..	32,033	..
Highways[5]	159,645	103,000	81,500	19,500	13,550	6,000	..	2,231,909	..
Economic developments[6]	9,600	..	6,050	..	..	..	..	..	..
Social welfare[7]	96,000	114,000	83,850	6,400	7,800	3,920	..	4,285,353	..
Miscellaneous[8]	8,000	1,500[9]	13,800	..	350[9]	..	..	17,886	..
Net total	$442,500	$423,950	$242,850	$40,500	$39,600	$18,100	..	$16,858,021	..
Debt redemption	..	..	..	..	..	..	..	1,203,000	..
Interest	..	..	..	..	..	..	..	770,431	..
Gross total	..	..	..	..	..	..	..	$18,831,452	..
Percentage Distribution of Net Levies and Expenditures									
General government	33.0	43.1	19.3	36.0	42.3	45.2	30.7	53.0	47.4
Protection[3]	4.0	5.3	3.3	..	2.9	..	3.5	8.1	7.2
Education[4]	1.2	..	1.2	..	..	..	0.6	0.2	0.2
Highways[5]	36.1	24.3	33.5	48.2	34.2	33.1	37.4	13.2	11.9
Economic developments[6]	2.2	..	2.5	..	..	..	1.0	..	..
Social welfare[7]	21.7	26.9	34.5	15.8	19.7	21.7	25.5	25.4	22.7
Miscellaneous[8]	1.8	0.4	5.7	..	0.9	..	1.3	0.1	0.1
Net total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	..
Debt redemption	..	..	..	..	..	..	..	..	6.4
Interest	..	..	..	..	..	..	..	..	4.1
Gross total	..	..	..	..	..	..	..	..	100.0

[1] Includes county general fund levies and county highway, mothers' pension and tuberculosis sanitarium levies.

[2] Brown, Cumberland, Fulton, Greene, Hancock, Hardin, Henry, Jo Daviess, Johnson, Knox, La Salle, Logan, McHenry, Macoupin, Montgomery, Sangamon, Schuyler, Stark, Warren, Woodford.

[3] For the most part jail expenses and provision for one protective officer. In those counties which contribute toward ex-soldiers' organizations, this item has been included.

[4] In the smaller counties, the travelling expenses of the supervisor of education are sometimes met out of the county fund. In the large counties, the county sometimes pays the salary of a special or deputy supervisor

[5] For the most part, this represents the county highway (state-aid) levy, though considerable appropriations are sometimes made out of the general fund for non-state-aid roads and bridges.

[6] The largest items are the mothers' pension levies, the tuberculosis sanitarium levies, and general fund levies for county farms and blind relief.

[7] The largest items are for the eradication of diseases of livestock and for bounties.

[8] Includes undistributed county levies (sometimes called "contingent fund") and occasionally provision for interest on the county debt.

[9] Interest.

siderable provision for agricultural encouragement and for the payment of bounties, such items are entirely absent in the counties with small budgets.

These levy figures fall short of being a true reflection of county expenditures by reason of three important considerations. In the first place, as was noted in the discussion of local revenues in general, every county enjoys revenue of some importance from fees and non-revenue receipts which cover a corresponding amount of expenditure. In this connection, it is to be borne in mind that the county treasurer also retains 2% of state property taxes collected and a like percentage of any local property taxes collected, other than those intended for county use. These fees and non-revenue receipts are utilized in large part for the payment of salaries of county officers and for defraying the expenses of their offices. In a table devoted to *expenditures*, the larger part of these receipts from sources other than direct tax levies would be applied to the expenditure falling under the heading "general government." The remainder of such expenditures would represent payments from the earnings of county farms and other welfare institutions.

In the second place, levy figures do not take into account outlays of a capital nature which are financed by loans. A small fraction of these outlays is doubtless used for the construction of county buildings, and would be included under expenditures for general government. A somewhat larger fraction represents construction of county sanitariums, the purchase and improvement of county farms, and similar institutions devoted to social welfare. The largest use, however, of the proceeds of bond sales is for road construction. Finally, interest on a part of the county indebtedness and on the county highway debt is paid by levies independent of those which appear in Table 2.

If it were possible to draw up a table of the complete classified expenditures of the counties in Illinois, the largest item in the table would be that of expenditures for county highway construction and maintenance. The next largest item would be expenditures for general government—salaries and general overhead expenses, defrayed in part by the levies noted in Table 2 and in part by fees of office and non-

revenue receipts. Expenditures for social welfare would occupy the third place, and though they would form a considerable item, they would by no means appear so important as the levy figures seem to indicate.

The expenditures of Cook County, which are almost as heavy as those of the other one hundred and one counties combined, are analyzed in Table 2. It is seen that in a total of $16,858,021 of net expenditures for the county in the fiscal year 1924, over one-half was devoted to the overhead cost of government, to salaries, maintenance of boards and commissions, and upkeep of public buildings. Somewhat more than one-quarter went to welfare activities. Expenditures for road purposes were much lower than in the other counties, while expenditures for protection of life and property were decidedly higher. Of the gross expenditures of the county, over ten per cent was applied to debt redemption and the payment of interest on the bonded and floating debt.

City Expenditures

In addition to the city of Chicago, there are at present fourteen cities[1] in Illinois with populations exceeding 30,000. The expenditures of cities in Illinois are shown in Table 3. In 1925 the fourteen lesser cities had a combined gross expenditure of $36,250,130, while in the same year the city of Chicago spent $223,724,124, over six times as much as the other fourteen.

It is not possible to compare the expenditures of these fourteen cities over the entire period from 1912 to 1925, because six of them had a population of less than 30,000 in 1912 and hence were not included by the United States Bureau of the Census in its statistical analysis of that year. For the other eight cities,[2] however, such a comparison can be made. In 1912, these eight cities had a combined gross expenditure of $7,833,971. In 1923, this figure had more than doubled, and the gross expenditures of the year were $17,989,938. In 1925, their combined gross expenditures amounted to

[1] Aurora, Cicero, Decatur, Danville, East St. Louis, Evanston, Joliet, Moline, Oak Park, Peoria, Quincy, Rockford, Rock Island and Springfield.

[2] Peoria, East St. Louis, Springfield, Rockford, Quincy, Joliet, Decatur and Aurora.

Table 3: Expenditures of Illinois Cities, 1912, 1923 to 1925

(Source: U. S. Bureau of the Census)

	Chicago [1]				Cities [2] Having Population of 30,000 to 100,000 in 1912 [3]				Cities [2] Having Population of 30,000 to 100,000 [4]		
	1912	1923	1924	1925	1912	1923	1924	1925	1923	1924	1925
General government											
Capital	$420,442	$52,018	..	$256,082	$458	$1,422	$794	$12,424	$5,186	$1,394	$14,665
Maintenance	6,455,558	12,065,001	$12,108,175	13,366,414	456,507	672,647	743,890	824,325	1,029,940	1,130,132	1,299,393
Protection											
Capital	81,004	521,617	164,624	305,420	70,579	52,017	103,362	160,705	82,185	156,381	185,184
Maintenance	10,878,392	21,652,152	22,253,404	28,214,629	1,057,976	1,846,086	1,972,023	2,208,899	2,880,579	3,075,546	3,532,941
Education											
Capital	2,808,657	6,038,523	7,631,037	10,444,214	758,754	1,797,161	1,521,012	1,642,565	3,711,924	3,693,364	3,324,095
Maintenance	10,719,484	36,788,218	40,021,000	42,777,741	1,743,081	5,253,187	5,380,164	5,680,542	8,328,350	8,882,263	9,921,682
Highways											
Capital	6,307,413	22,076,470	23,838,348	47,383,537	1,009,348	3,044,031	2,708,566	4,307,378	6,136,280	5,015,025	7,103,948
Maintenance	2,791,263	6,795,845	8,389,471	8,589,526	483,560	863,257	963,733	989,918	1,385,835	1,511,643	1,595,788
Social welfare											
Capital	5,382,212	10,967,228	21,513,369	22,210,685	662,022	700,630	730,135	778,970	1,170,370	1,382,411	1,464,607
Maintenance	9,791,641	23,014,218	24,974,355	26,202,158	549,874	1,059,586	1,159,516	1,219,482	1,749,467	1,980,571	2,170,353
Miscellaneous											
Capital	39,036	204,434	81,553	..	37,268	9,091	1,397	2,100	10,423	1,397	2,317
Maintenance	1,683,001	4,798,870	5,729,296	939,196	36,029	159,096	186,307	30,334	265,222	286,011	55,316
Net total											
Capital	$15,038,764	$39,860,290	$53,228,931	$80,599,938	$2,538,429	$5,604,352	$5,065,266	$6,904,142	$11,116,368	$10,249,972	$12,094,816
Maintenance	42,319,339	105,114,304	113,475,701	120,089,664	4,327,027	9,853,859	10,405,633	10,953,500	15,639,393	16,866,166	18,575,473
Combined net total	$57,358,103	$144,974,594	$166,704,632	$200,689,602	$6,865,456	$15,458,211	$15,470,899	$17,857,642	$26,755,761	$27,116,138	$30,670,289
Public utilities											
Capital	2,845,397	4,137,409	4,418,413	5,152,939	232,032	619,516	762,151	797,050	907,020	1,360,126	1,279,840
Maintenance	3,638,482	5,986,424	6,540,430	6,682,577	293,071	1,030,252	1,155,988	1,309,864	1,571,507	1,745,562	2,014,636
Total public utilities	$6,483,879	$10,123,833	$10,958,843	$11,835,516	$525,103	$1,649,768	$1,918,139	$2,106,914	$2,478,527	$3,105,688	$3,294,476
Interest	3,959,975	9,155,929	9,081,659	11,199,006	443,412	881,959	1,001,723	1,206,737	1,505,663	1,685,740	2,285,365
Gross total, excluding debt redemption	$67,801,957	$164,254,356	$186,745,134	$223,724,124	$7,833,971	$17,989,938	$18,390,761	$21,171,293	$30,739,951	$31,907,566	$36,250,130

Percentage Distribution of Capital and Maintenance Expenditures

Capital	26.2	27.5	31.9	40.2	37.0	36.3	32.7	38.7	41.5	37.8	39.4
Maintenance	73.8	72.5	68.1	59.8	63.0	63.7	67.3	61.3	58.5	62.2	60.6
Net total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Percentage Distribution of Combined Net Expenditures

General government	12.0	8.4	7.3	6.8	6.7	4.4	4.8	4.7	3.9	4.2	4.3
Protection	19.1	15.3	13.4	14.2	16.4	12.3	13.4	13.3	11.1	11.9	12.1
Education	23.6	29.5	28.6	26.5	36.4	45.6	44.6	41.0	45.0	46.4	43.2
Highways	15.9	19.9	19.3	27.9	21.7	25.2	23.8	29.6	28.1	24.1	28.4
Social welfare	26.4	23.4	27.9	24.1	17.7	11.4	12.2	11.2	10.9	12.4	11.8
Miscellaneous	3.0	3.5	3.5	0.5	1.1	1.1	1.2	0.2	1.0	1.0	0.2
Net total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] Includes Cook County, school district, park district and sanitary district expenditures to the extent that they are coordinate with the city of Chicago.
[2] Include schools and park districts to the extent that these are coordinate with the cities.
[3] Includes Peoria, East St. Louis, Springfield, Rockford, Quincy, Joliet, Decatur, and Aurora.
[4] Includes Cicero, Oak Park, Evanston, Rock Island, Moline and Danville, in addition to the cities included in 1912.

$21,171,293, representing an increase of 17.7% over the figure for 1923 and one of 170.2% over the expenditures in 1912. In the same period, the gross expenditures of the city of Chicago increased from $67,801,957 to $223,724,124, or 230%.

Aside from all expenditures on public utilities and interest payments, the high proportion of net expenditure of these cities devoted to capital outlay is worthy of notice. In Chicago this proportion has been about thirty per cent of the total. In the smaller cities, the corresponding proportion has been nearer forty per cent. The higher proportions of capital outlay are to be found in the cities which grow more rapidly, as may be seen from Table 3, which shows that when the capital outlay of the six cities whose populations have increased to over 30,000 since 1912 is added to the capital outlay of the other eight cities, the proportion of the joint capital outlay to combined net expenditures is increased.

The distribution of city expenditures in Chicago is in several respects in marked contrast to the distribution of expenditures in the smaller cities. In all the Illinois cities, the expenditures for schools constitute the largest item of their combined expenditures. In the smaller cities, however, the proportion is much higher than in Chicago; and these cities also show a higher proportion of expenditures devoted to streets and highways. On the other hand, Chicago spends proportionately more on social welfare and for general government than do the smaller cities.

Expenditures for Education

The rapidly expanding expenditures for education by the various governmental agencies in Illinois are shown in Table 4.

The total expenditures by the state government, by the counties and by the 11,956 school districts[1] of the state for public school education in Illinois, including new sites, buildings and equipment as well as charges, grew from nearly $38 millions in 1913 to $127.6 millions in 1925, their amount in

[1] This was the number in 1925. See "1925 Statistical Report of the Superintendent of Public Instruction of the State of Illinois," 1926, p. 3.

Table 4: Cost of Public School Education in Illinois, 1913 to 1925

(Source: Annual Reports of Illinois State Superintendent of Public Instruction)

Years	General Control	Instruction	Operating School Plant	Maintenance of Plant	Auxiliary Agencies	Total Current Expenses	Capital Outlay, New Grounds, Buildings and Equipment	Interest and Amortization of Bonded Debt	Total Cost	Average Cost per Pupil Enrolled	Average Salaries of Teachers	Total Enrollment
Cook County												
1913	..	..	..	..	..	$13,400,127	$5,800,015	$248,582	$19,448,724	$55.05	$1,164	353,284
1914	..	..	..	..	..	14,228,954	5,422,371	309,285	19,960,610	53.75	1,166	371,348
1915	$605,263	$11,546,949	$1,946,808	$579,627	$450,264	15,128,911	3,954,895	331,753	19,415,559	50.12	1,199	387,412
1916	593,949	11,766,323	2,114,504	681,303	526,728	15,682,807	4,723,809	315,761	20,722,377	51.82	1,266	399,867
1917	623,257	13,065,241	2,375,259	907,374	950,246	17,921,376	4,854,677	323,929	23,099,982	56.17	1,297	411,257
1918	700,413	14,097,643	2,969,625	1,061,616	851,333	19,680,630	4,068,359	382,930	24,131,918	57.38	1,340	420,560
1919	887,658	15,219,181	2,976,905	1,018,936	2,077,532	22,180,211	4,996,731	399,465	27,576,407	65.25	1,333	422,604
1920	1,208,029	20,317,676	3,328,264	1,608,366	2,008,715	28,471,049	3,935,548	435,870	32,842,467	72.76	1,781	451,365
1921	1,529,397	23,019,048	5,161,314	2,090,575	3,085,919	34,886,252	5,767,124	439,176	41,092,552	79.10	1,942	519,526
1922	1,616,696	25,214,549	5,599,016	2,340,711	3,044,869	37,815,842	7,501,918	427,993	45,745,753	83.16	2,022	550,096
1923	1,603,074	32,302,547	5,893,871	2,579,364	8,867,129	51,245,984	8,849,575	579,688	60,675,248	102.43	2,307	592,352
1924	1,720,297	35,106,962	5,783,756	2,486,980	1,745,171	46,843,166	10,672,171	648,660	58,163,997	100.37	2,330	579,475
1925	1,879,269	36,915,992	6,163,008	2,256,910	3,169,439	50,384,618	13,772,841	848,533	65,005,992	108.38	2,364	599,796
Entire State												
1913	..	..	..	..	..	$27,990,661	$8,593,349	$1,339,933	$37,923,943	$37.54	$662	1,010,215
1914	..	..	..	..	..	29,714,691	8,649,639	1,923,527	40,287,856	38.61	685	1,043,227
1915	$1,023,978	$23,865,991	$3,837,942	$2,079,910	$637,226	31,445,047	8,063,011	1,776,217	41,284,275	28.79	714	1,064,221
1916	1,065,672	25,023,906	4,121,643	2,141,187	810,352	33,162,760	9,370,788	1,944,652	44,478,199	41.00	751	1,084,640
1917	1,148,086	27,060,300	4,771,254	3,677,935	2,086,246	38,743,822	10,882,056	2,271,805	51,897,683	47.40	769	1,094,768
1918	1,294,537	29,001,198	5,961,635	3,236,890	2,012,893	41,507,153	8,745,373	2,351,044	52,603,570	48.64	805	1,081,504
1919	1,555,249	32,092,156	6,044,064	2,713,639	2,955,982	45,361,090	8,237,118	2,529,977	56,128,185	51.67	848	1,086,267
1920	2,083,345	41,678,576	7,038,747	3,864,589	3,233,905	57,899,161	10,308,437	3,004,472	71,212,070	63.16	1,080	1,127,560
1921	2,631,503	51,087,162	10,119,905	4,867,734	4,731,197	73,437,501	17,143,411	3,401,577	93,982,489	78.25	1,287	1,200,922
1922	2,821,527	55,792,329	10,585,372	5,036,325	4,892,572	79,128,125	20,440,756	3,865,563	103,434,444	82.80	1,343	1,249,208
1923	2,808,168	63,390,239	11,391,261	5,474,880	10,698,148	93,762,695	19,702,775	4,488,221	117,953,692	90.77	1,447	1,299,473
1924	3,008,178	68,110,779	11,376,304	5,334,742	4,074,750	91,904,754	20,630,550	4,758,920	117,294,225	89.13	1,489	1,316,038
1925	3,230,362	71,544,553	11,904,793	5,418,068	5,039,871	97,137,646	25,001,264	5,494,079	127,632,989	95.01	1,526	1,343,430

the latter year being practically triple that in the former. In Cook County, the increase was from $19.4 millions to $58.2 millions. The average cost per pupil for the entire state, including payments for new buildings and debt charges, a figure which takes cognizance of increased enrollment, was $95.01 in 1925, as compared with $37.54 in 1913, an increase of 153.1%; while for Cook County, the figures were $108.38 and $55.05, respectively, a gain of 96.6%. Thus, it is seen that school costs have risen less sharply in Cook County than in the remainder of the state. It will be noted that in 1913 the cost per pupil in Cook County was considerably higher than in the state as a whole; and if the average for the state increased more rapidly than that for Cook County, it was in large measure caused by a more rapid improvement of standards of education throughout the rest of the state.

A twofold gain in expenditures for education in the course of ten years makes, at first glance, an impressive showing. However, if the changes in price levels be taken into consideration, the $127.6 millions expended for education in 1925 become approximately only $73.3 millions when expressed in "1913 dollars,"[1] reducing the percentage of increase to 93.4%. Moreover, during the intervening decade there was a decided increase in the number of children attending school. In 1913 the school expenditures per child attending were $37.54. The 1925 expenditures per child in current dollars were $95.01; in "1913 dollars" they amounted to only $54.60. This represented a "true" increase of 45.4% over the 1913 figure which is by no means impressive, when the expansion of other branches of government activity is taken into consideration.

The largest item in the total of public school costs in Illinois is teachers' salaries, included in Table 4 in the column

[1] Expenditures for education in Illinois were analyzed roughly as follows: 60% for instruction, 20% for capital outlays and 20% for general maintenance and other items. Three independent indices were used to equate the expenditures in 1913 and in 1925. The United States Bureau of Labor index of the cost of living was used to estimate the "true" costs of instruction. The National Industrial Conference Board's index of building costs was used to estimate the "true" cost of building. The United States Bureau of Labor Statistics index of wholesale prices was used to estimate the "true" cost of other items. The three indices were weighted to correspond to the distribution of school expenditure in Illinois. Thus combined, they give an index number of 174 in 1925, taking the year 1913 as 100.

headed "Instruction." This item has consistently represented about three-fourths of the total of current school expenses, and about three-fifths of total net school expenditures (excluding service on the school debt). The total figure for teachers' salaries has increased 233.5% during the eleven years from 1915 through 1925. In part, this is the result of the increase in the number of teachers, necessitated by growth in the public school registration. A part of it must also be attributed to increases in teachers' salaries during this period. The average of teachers' salaries more than doubled during these years, increasing from $714 in 1915 to $1,526 in 1925. The use of these averages, however, does not give a very clear picture of the true situation, since they are distorted by two factors. In the first place there are wide differences in salaries in different parts of the state. In the city of Chicago the average salary of a teacher is $2,508.28; in Pope County it is $570.17. In the second place, during the years considered, the number of grade school teachers has increased about 26%, while the number of higher salaried teachers in the high schools has increased about 186%. This development has had considerable effect in making the average for all salaries higher, and has made the increase in salaries paid appear to be greater than it really is.

The National Education Association has pointed out that the ratio of children of school age to total population materially affects the burden of a state's obligation to support education.[1] It is necessary to consider not only the relative number of children for whom school facilities must be provided, but also the relative number of wealth-producing adults who are called upon to provide these facilities. Measuring the relative educational obligations of the states by the proportion of the children aged six to thirteen to total population, it is found that Illinois is 8.43% below the average for the country, ranking sixteenth among the states.

The relative ability of a state to support education may be measured by its relative economic power modified by its relative educational obligation. Illinois is counted among the richest states. Its average per capita income for the

[1] National Education Association, "The Ability of the States to Support Education," Research Bulletin, Vol. IV, no. 112, p. 29.

years 1919 to 1921 (the most recent years for which there are accurate data[1]) was $865, whereas the average per capita income for the country as a whole during these years was $696. Its average income per child of school age during this period was $5,704, or 36% above the nation's average of $4,194. Measuring "ability to support education" by this criterion, Illinois ranks ninth among the states.[2] If the criterion of relative wealth be combined with that of relative income, the ranking of Illinois becomes tenth.[3]

Educational expenditures per child of school age in Illinois have been consistently above the average for the country, but not so far above this average as the relative "ability" of the state to support education would warrant. In 1910 Illinois spent $24.15 per child of school age, when the average for the United States was $17.04. In 1918 the figures were respectively $33.13 and $27.58; in 1922, $64.08 and $55.22; and in 1925, $76.26 and $65.51. The ability of Illinois to support education is 36% above the country's average, while the support which the state gave to education in 1925 was 16.4% above the average.

The state school fund is an important item in the state government's fiscal organization. The counties and the townships also maintain school funds. It should be borne in mind, however, that these state, county and township funds are *distributive* funds, not expended directly by the authorities of these divisions, but distributed by them to the local districts. The local school district expends the school moneys, a part of which has been raised by other governmental agencies. This point is considered in greater detail in Chapter V.[4]

Expenditures for Highways

In 1919 the state of Illinois embarked upon an elaborate program of highway improvement and construction. The expenditures for this purpose have been in large measure

[1] Maurice Leven, "Income in the Various States," National Bureau of Economic Research, 1925, p. 256.

[2] See the National Industrial Conference Board, "The Fiscal Problem in Delaware," New York, 1927, Table 33, p. 117.

[3] National Education Association, *op. cit.*, pp. 12–21.

[4] See below, Table 18, p. 103.

defrayed from the proceeds of the two authorized bond issues totaling $160,000,000, approved by popular vote in 1918 and 1924. The first bond issue of $60,000,000 has been fully expended, and $35,000,000 of the second bond issue had already been sold by the end of the fiscal year 1926.

Apart from the amounts disbursed by local civil authorities, the state government has expended $161.8 millions for roads from 1914 to 1925. Of this amount, $5.0 millions were spent in 1919, $11.6 millions in 1920, $15.6 millions in 1921, $22.4 millions in 1922, $31.0 millions in 1923, $39.5 millions in 1924 and $33.4 millions in 1925. An analysis of state road expenditures is shown in Table 5.

TABLE 5: STATE EXPENDITURES FOR ROADS, CALENDAR YEARS 1914 TO 1925

(Source: Illinois State Department of Public Works and Buildings)

Year	Administration and Engineering	Construction	Maintenance	County Refunds	Equipment	Total
			Amount			
1914	..	$364,202	..	..	..	$364,202
1915	$23,041	629,603	$9,872	..	..	662,516
1916	3,921	656,641	20,686	..	..	681,248
1917	113,468	992,567	35,532	..	..	1,141,567
1918	21,896	524,803	37,304	..	..	584,003
1919	501,812	4,323,274	84,614	..	$66,287	4,975,988
1920	813,942	10,318,518	208,803	..	240,237	11,581,500
1921	922,292	13,279,259	358,658	$727,273	308,557	15,596,039
1922	1,337,751	17,573,666	640,503	2,436,005	379,666	22,367,592
1923	1,935,199	25,612,478	1,110,209	2,016,520	319,570	30,993,977
1924	2,368,147	33,442,772	2,044,861	1,176,893	429,662	39,462,336
1925	2,088,145	28,403,539	1,834,638	602,051	460,306	33,388,679
			Percentage Distribution			
1914	..	100.00	..	..	..	100.00
1915	3.48	95.03	1.49	..	..	100.00
1916	.58	96.39	3.04	..	..	100.00
1917	9.94	86.95	3.11	..	..	100.00
1918	3.75	89.86	6.39	..	..	100.00
1919	10.08	86.88	1.70	..	1.33	100.00
1920	7.03	89.09	1.80	..	2.07	100.00
1921	5.91	85.14	2.30	4.66	1.98	100.00
1922	5.98	78.57	2.86	10.89	1.70	100.00
1923	6.24	82.64	3.58	6.51	1.03	100.00
1924	6.00	84.75	5.18	2.98	1.09	100.00
1925	6.25	85.08	5.49	1.80	1.38	100.00

The largest single item of road expenditure has been the construction of new highways, and simultaneously with the

growth of this item there has been a more or less corresponding increase in administration and engineering costs in connection with the new projects. Expenditures for highway maintenance have risen sharply in recent years and may be expected to grow with the continued extension of the state road system.

Sources of Highway Revenue

A large increase in the tax revenue devoted to highway construction has paralleled the marked activity in road construction undertaken by the state government. In 1914 motor vehicle license collections, which comprised the entire

Table 6: Revenue for Roads Deposited in Illinois State Treasury, Calendar Years 1914 to 1926

(Source: Annual Report of the Illinois State Department of Public Works and Buildings)

Year	Motor Vehicle Licenses	Federal Aid	Proceeds of Bond Issues	Miscellaneous	Total
			Amount		
1914	$700,233	..	..	..	$700,233
1915	903,284	..	..	..	903,284
1916	1,238,484	..	..	..	1,238,484
1917	1,629,445	..	..	..	1,629,445
1918	2,770,085	..	..	.. $85	2,770,170
1919	3,236,449	$527,710	..	1,444	3,765,603
1920	5,856,044	5,197,089	..	58,862	11,111,995
1921	6,862,126	3,802,430	$2,469,001	221,646	13,355,203
1922	7,904,220	1,733,335	13,058,532	132,496	22,828,583
1923	9,677,319	4,257,276	19,212,240	127,847	33,274,682
1924	11,557,839	3,565,059	23,718,539	300,046	39,141,483
1925	12,829,085	3,621,055	22,810,200	394,602	39,654,942
1926	13,779,133	2,026,271	14,595,300	474,926	30,875,630
			Percentage Distribution		
1914	100.00	..	..	..	100.00
1915	100.00	..	..	..	100.00
1916	100.00	..	..	..	100.00
1917	100.00	..	..	..	100.00
1918	99.99	..	..	.01	100.00
1919	85.95	14.01	..	.04	100.00
1920	52.70	46.77	..	.53	100.00
1921	51.38	28.47	18.49	1.66	100.00
1922	34.62	7.59	57.20	.58	100.00
1923	29.08	12.79	57.74	.38	100.00
1924	29.53	9.11	60.60	.77	100.00
1925	32.35	9.13	57.52	1.00	100.00
1926	44.63	6.56	47.27	1.54	100.00

revenue then available for highway purposes, amounted to $700,233. In 1926, the revenue from this source was $13,779,133, which represented 44.6% of the total highway revenue. Federal aid, which constituted a large percentage of the road revenues in the first few years after 1919, has come to occupy a relatively minor position because of the great increase in the total of expenditures for roads and because of the increasing use of public credit to finance projects for new roads. In 1926, federal aid constituted only 6.6% of all road revenues of the state government, as compared with 47.3% contributed by moneys derived from the sale of bonds, as indicated in Table 6.

Recent mileage figures for road surfacing and road improvement bear witness to the efficacy of road expenditures in Illinois during the past few years. On January 1, 1926, the total mileage of roads and highways in the state was 96,326 miles, as shown in Table 7. Of this mileage, 15.84%, or 15,259.2 miles, were surfaced. This percentage was slightly under the average for the country, which was 17.4%. However, of these 15,259.2 miles of surfaced roadway, 5,089.1 miles, or 33.35% of the surfaced mileage and 5.28% of the total mileage of the state, were bituminous and portland cement concrete. In the country as a whole, only 9.39% of the surfaced mileage and 1.6% of the total mileage was concrete.

Summary

1. In the most recent year, 1922, for which local fiscal data were collected by the United States Bureau of the Census, it was estimated that the expenditures of the state and local governments of Illinois totaled about $366 millions. Of this amount about fifteen per cent was attributable to the state government and over forty-five per cent to cities with populations exceeding 30,000. The estimate for 1925 indicated that the state government was responsible for about one-fifth of the total combined expenditures.

2. The most marked increase has occurred in the expenditures of the state government, which increased from $18,936,023 in 1914 to $79,015,075 in 1926. The following factors

Table 7: Total and Improved State and Local Highway Mileage, United States, January 1, 1926

State	Total Highway Mileage	State Highway Mileage	Local Highway Mileage	Surfaced Roads		Sand, Clay and Gravel Roads		Macadam Roads		Asphalt and Concrete Roads		Block Pavements	
				Mileage	Per Cent of Total Highway Mileage	Mileage	Per Cent of Surfaced Roads	Mileage	Per Cent of Surfaced Roads	Mileage	Per Cent of Surfaced Roads	Mileage	Per Cent of Surfaced Roads
Alabama	61,540.8	3,953.5	57,587.3	13,560.5	22.03	12,545.7	92.52	823.9	6.07	190.7	1.41	0.2	..
Arizona	22,582.1	2,044.4	20,537.7	3,191.0	14.13	2,675.4	83.84	..	..	515.6	16.16	..	..
Arkansas	74,865.0	8,295.0	66,570.0	6,499.5	8.68	5,455.1	83.93	480.3	7.39	564.1	8.68	..	..
California	79,197.4	6,591.4	72,606.0	18,002.3	22.73	10,352.4	57.51	2,709.9	15.05	4,940.0	27.44	..	..
Colorado	67,838.5	8,932.8	58,905.7	8,599.8	12.68	8,340.2	96.98	..	..	259.6	3.02	..	..
Connecticut	13,346.0	1,871.9	11,474.1	2,609.5	19.55	76.2	2.92	2,035.9	78.02	495.7	18.99	1.7	0.07
Delaware	3,796.0	505.7	3,290.3	781.9	20.60	50.0	6.39	221.1	28.28	503.9	64.45	6.9	0.88
Florida	30,263.4	4,490.0	25,773.4	9,843.8	32.53	5,259.1	53.43	2,498.8	25.38	1,176.4	11.95	909.5	9.24
Georgia	97,892.2	6,231.7	91,660.5	18,710.2	19.11	17,068.9	91.23	779.8	4.17	860.9	4.60	0.6	..
Idaho	35,402.3	4,627.3	30,775.0	12,116.4	34.22	10,981.1	90.63	939.0	7.75	126.3	1.04	70.0	0.58
Illinois	**96,326.0**	**4,819.5**	**91,506.5**	**15,259.2**	**15.84**	**7,081.8**	**46.41**	**2,836.9**	**18.59**	**5,089.1**	**33.35**	**251.4**	**1.65**
Indiana	73,130.9	3,935.6	69,195.3	48,124.8	65.81	32,538.7	67.61	13,448.8	27.95	1,918.7	3.99	218.6	0.45
Iowa	102,921.1	6,674.1	96,247.0	5,985.9	5.82	5,415.3	90.47	..	..	537.3	8.98	33.3	0.55
Kansas	127,963.8	7,386.0	120,577.8	3,194.9	2.50	1,429.4	44.74	531.7	16.64	1,014.7	31.76	219.1	6.86
Kentucky	68,704.0	8,000.0	60,704.0	17,231.1	25.08	3,846.9	22.33	13,008.1	75.49	264.9	1.54	111.2	0.64
Louisiana	39,803.0	7,000.0	32,803.0	5,183.5	13.02	5,023.5	96.91	110.5	2.13	31.5	0.61	18.0	0.35
Maine	20,765.5	1,459.4	19,306.1	4,278.5	20.60	3,463.0	80.94	753.7	17.62	61.7	1.44	0.1	0.01
Maryland	14,868.0	2,429.0	12,439.0	4,689.0	31.54	1,667.3	35.56	1,981 0	42.25	1,033.0	22.03	7.7	0.16
Massachusetts	19,082.4	1,541.8	17,540.6	7,888.3	41.34	2,168.6	27.49	5,000.1	63.39	699.7	8.87	19.9	0.25
Michigan	77,283.3	6,706.6	70,576.7	21,513.8	27.84	16,536.8	76.87	2,447.7	11.38	2,287.3	10.63	242.0	1.12
Minnesota	108,080.2	6,954.5	101,125.7	24,384.6	22.56	23,466.8	96.24	165.6	0.68	724.6	2.97	27.6	0.11
Mississippi	56,108.0	5,500.9	50,607.1	9,909.6	17.66	9,268.7	93.53	358.7	3.62	259.9	2.62	22.3	0.23
Missouri	110,500.0	7,640.0	102,860.0	10,658.4	9.65	6,779.4	63.61	2,692.4	25.26	1,178.0	11.05	8.6	0.08
Montana	67,176.9	7,957.0	59,219.9	1,189.4	1.77	1,148.9	96.60	6.1	0.51	34.4	2.89	..	..
Nebraska	87,168.5	5,619.0	81,549.5	2,501.6	2.87	2,392.8	95.65	5.7	0.23	80.2	3.20	22.9	0.92
Nevada	23,170.7	2,996.7	20,174.0	1,251.6	5.40	1,168.4	93.36	33.2	2.65	50.0	3.99	..	..
New Hampshire	13,801.8	2,081.2	11,720.6	1,893.5	13.72	914.4	48.29	904.0	47.74	75.1	3.97	..	..
New Jersey	17,721.8	1,290.0	16,431.8	7,608.4	42.93	2,758.5	36.26	2,879.4	37.84	1,828.8	24.04	141.7	1.86
New Mexico	48,294.6	9,159.0	39,135.6	2,440.3	5.05	2,369.0	97.08	..	..	71.3	2.92	..	..
New York	81,873.0	13,900.0	67,973.0	26,363.3	32.20	5,662.1	21.48	16,844.9	63.89	3,501.0	13.28	355.3	1.35
North Carolina	68,148.2	6,432.2	61,716.0	20,016.5	29.37	16,506.4	82.47	1,191.2	5.95	2,232.1	11.15	86.8	0.43
North Dakota	106,498.4	6,174.0	100,324.4	1,784.1	1.68	1,776.9	99.60	..	..	7.2	0.40	..	..
Ohio	84,883.0	10,784.0	74,099.0	40,248.6	47.42	25,684.2	63.81	10,293.9	25.58	2,543.1	6.32	1,727.4	4.29
Oklahoma	134,262.0	5,589.0	128,673.0	1,685.9	1.26	776.9	46.08	338.1	20.05	538.6	31.95	32.3	1.92
Oregon	49,752.3	4,446.3	45,306.0	10,754.9	21.62	9,442.7	87.80	..	..	1,312.2	12.20	..	..
Pennsylvania	92,758.8	10,827.8	81,931.0	18,957.5	20.44	5,654.8	29.83	7,918.6	41.77	4,503.7	23.76	880.4	4.64
Rhode Island	2,374.4	768.4	1,606.0	777.0	32.72	113.0	14.54	465.1	59.86	195.9	25.21	3.0	0.39
South Carolina	64,633.8	4,951.0	59,682.8	10,060.8	15.57	9,630.4	95.72	95.3	0.95	335.1	3.33	..	..
South Dakota	116,906.1	5,918.0	110,988.1	3,007.2	2.57	3,006.0	99.96	..	..	1.2	0.04	..	..
Tennessee	65,321.6	4,644.4	60,677.2	13,325.3	20.40	6,004.3	45.06	6,715.6	50.40	604.4	4.53	1.0	0.01
Texas	167,685.0	16,668.0	151,017.0	20,114.6	12.00	16,684.5	82.95	2,628.9	13.07	738.1	3.67	63.1	0.31
Utah	23,381.1	3,132.3	20,248.8	3,131.9	13.40	2,784.4	88.90	22.8	0.73	324.7	10.37	..	..
Vermont	14,874.0	4,466.0	10,408.0	4,680.4	31.47	4,527.8	96.74	114.7	2.45	37.9	0.81	..	..
Virginia	59,080.4	4,920.4	54,160.0	9,781.9	16.56	6,144.0	62.81	3,087.4	31.56	550.5	5.63	..	..
Washington	49,016.0	3,266.0	45,750.0	17,271.0	35.24	14,815.0	85.78	152.0	0.88	2,077.0	12.03	227.0	1.31
West Virginia	35,243.0	3,664.0	31,579.0	1,628.0	4.62	245.5	15.08	789.0	48.46	442.6	27.19	150.9	9.27
Wisconsin	78,964.2	10,264.5	68,699.7	28,317.7	35.86	25,245.6	89.15	919.1	3.25	2,153.0	7.60	..	..
Wyoming	46,575.8	3,143.3	43,432.5	907.0	1.95	860.2	94.84	35.2	3.88	11.6	1.28	..	..
Total	3,001,825.3	270,653.6	2,731,171.7	521,914.9	17.39	357,807.0	68.56	109,264.1	20.93	48,983.3	9.39	5,860.5	1.12

contributed to this increase: (a) the present lessened purchasing power of the dollar as compared with its pre-war value; (b) the natural expansion of governmental functions resulting from the increase of population and wealth of the state; and (c) the assumption of new functions by the state government during this period, the most notable being its program of highway construction which was begun in 1919.

3. Nearly one-half of the net expenditures of the state government in recent years has consisted of outlays for construction of a permanent character.

4. The total of school expenditures in Illinois increased twofold during the decade preceding the year 1925. The larger part of this increase is accounted for by the decreased purchasing power of the dollar and by increased school enrollment. The "true" increase in school expenditures during this period was 45.4%.

5. The ability of Illinois to support education is 36% above the average of the United States. The support which the state gave to education in 1925 was 16.4% above the average for the country as a whole.

CHAPTER II

CENTRAL CONTROL OF LOCAL FINANCES

DURING the last three decades, and especially in the last five years, the expenditures of the state governments in the United States have grown in amount more rapidly than those of governmental subdivisions within the individual states, and hence the share of the state government in the aggregate expenditure of local governments has increased at the expense of the share of these subdivisions.

Nevertheless, the local governments still make expenditures nearly four times as great as those of the state governments; but while the expenditures of the larger cities are given extensive publicity and are made the subject of active comment and debate, a veil of ignorance and indifference shrouds the fiscal activities of counties and of smaller governmental divisions. To a large extent their taxpayers have surrendered their control of local finances to local political groups, and there has developed in consequence a growing movement to bring the fiscal activities of these subsidiary governmental agencies under the control, or at least the supervision, of central authorities. An attempt to establish a check by some central authority upon each definite item of local expenditure might be an unwise policy and one that would perhaps be impossible of accomplishment. It is, however, quite practicable to control in some measure the total of local expenditures through limitations upon the resources from which these expenditures must be met—upon tax levies and upon the power of the localities to raise funds by borrowing.

Limitation of Local Finances in Illinois

In Illinois the three checks on local finances are found in the limitations on the incurring of local indebtedness, in the

limitation on county tax levies and in the Juul Law. The Constitution of Illinois (Art. IX, Sec. 12) provides that the total indebtedness of any local governmental body may not exceed 5% of the value of property within its boundaries as fixed by the most recent assessment. Moreover, when bonded indebtedness is incurred, an additional levy, sufficient to pay the interest and retire the issue within twenty years, must accompany it. To this constitutional limitation legislative enactment has added the provision that local bond issues can be authorized only upon referendum vote (Revised Statutes, Ch. 24, Sec. 661; Ch. 34, Sec. 40). Limitations are also placed on the rate of interest that may be paid on these issues.

A second limitation (Sec. 121 of the General Revenue Act) is found in the provision that the county general levy can not exceed five mills. However, this limitation does not apply to the levy for state-aid roads[1] (which may be as high as two and a half mills) and to levies for the payment of interest and principal of state-aid road indebtedness. Experience has shown this limitation to be a somewhat ineffective check. The county, as a governmental unit, is not responsible for any large part of local expenditures. Moreover, when in particular cases there is pressure to expand some special local governmental function hitherto exercised by the county government, an independent district is usually created to take over the activity, and the levy for this purpose is withdrawn from the five mill limitation.

Theoretical Provisions of the Juul Law and Its Practical Operation

The Juul Law, first enacted in 1901 and frequently amended, has a somewhat broader application. It provides that the rate of the combined levies upon any piece of property may not exceed 20 mills. The significance of the law, however, is lessened by the number of levies which are excluded from its application. These are the state levy, township levies, village levies, levee levies, tuberculosis sanitarium levies, library levies, pension fund levies, all school and school-building levies in districts having not more than 100,000 inhabitants, road and bridge levies, levies for the

[1] See *People (ex rel.) v. Chic. & Eastern Ry. Co.*, 205 Illinois 454.

payment of the principal and interest of the bonded indebtedness of cities and of park districts, and levies pursuant to the mandate or judgment of any court of record on any bonded indebtedness. This broad exclusion of the interest and bonded debt levies of cities has had the unfortunate effect of causing many cities at times to finance a part of their current expenditure by loans so as to escape this levy limitation. It has been estimated that at least four per cent of the municipal debt of Illinois cities in 1912 was of this nature.[1]

There is a further check upon the operation of the Juul Law. Even if the total rate of the levies taken into consideration by the law exceeds twenty mills, the scaling-down process is limited by a series of minimum rates for the various levies. The county levy may not be reduced under five mills. The city levy in Chicago may not be reduced lower than eighteen and one-half mills; for other cities and villages the minimum is thirteen and one-third mills. There are similar minimum limitations for the other levies.

The many amendments to the Juul Law since its passage, withdrawing first one and then another special levy from its control, have rendered it largely nugatory. The Juul Law has never embodied any degree of control or supervision of local finances, and as a check upon total expenditure it has had no great success.

Methods of Local Fiscal Limitations in Other States

The constitutions of thirty-three states prescribe limitations upon the amount of indebtedness which local governments may incur. These limitations are usually expressed as percentages of the taxable value of property. In fifteen states, the maximum debt is limited to 5% or less of the assessed valuation of taxable property. In nine others, the limitations range from 5% to 10%. In two states it is fixed at more than 10%. In ten states, however, there are no percentage limitations, but other restrictions are placed upon the borrowing power of local governments. Constitutional provisions may or may not restrict the amount of indebted-

[1] L. D. Upson, "Sources of Municipal Revenues in Illinois," University of Illinois Bulletin, Vol. X, no. 1, 1912, p. 13.

ness which local governments may incur, but there are innumerable statutes which impose limitations on indebtedness in every state in the Union. Some of this legislation is local or special in character, which often defeats the purpose of the general statute, but the greater portion is of a general nature, designed to cover all local governments of a particular class in the entire state. In most cases, the maximum maturity for loans is specified, and increasing recognition is being given to the principle that, when an improvement is financed through the use of public credit, the debt incurred for the purpose should be retired during the life of the improvement. The serial plan of retiring public indebtedness is gaining favor, and eleven states now make it mandatory. Referenda on local governmental loans are usually required, and the vote necessary for approval varies from a simple majority to a three-fifths majority. With the few exceptions noted in the following pages, no provision has, however, been made for routine administrative control of local indebtedness.

Turning to tax limitations, we find that two methods have been employed to check tax levies of local governments, that is, by fixing a maximum rate of taxation in the aggregate, or for specific objects, or both, and by fixing precise amounts of levy which cannot be exceeded. Thirty-four states lay down maximum rates; eight states place restrictions on the amounts which may be levied, while four states combine both methods. Missouri restricts all local government tax levies, exclusive of those for indebtedness, to a maximum of 10% in excess of the previous year's tax levy, although this provision may be overruled by a majority vote of the electors, within the limits prescribed by the state constitution. Colorado limits all local government tax levies to an amount 5% in excess of the previous year's tax levy, except for bonded indebtedness; New Mexico follows a similar policy, except that the State Tax Commission may authorize this amount to be exceeded.[1] In North Dakota, local tax levies, except those for local improvements and for sinking funds, may exceed the average of the levies for 1918, 1919 and 1920 only in the same proportion as the present assessed valuation exceeds the assessed valuation in 1919. Upon a majority

[1] See below, p. 43.

vote of the electors this maximum may, however, be exceeded to the extent of 25%.[1] In Oregon, some cities have special tax restrictions in their charters; in addition, the state Constitution provides that the revenue raised by any governmental body for other purposes than for debt service may exceed the corresponding amount for the previous year by only 6%. In Minnesota, all levies of cities, villages and school districts are limited to $100 per capita, except for indebtedness contracted prior to and including 1921, while Nebraska lays down in dollars and cents the amounts that certain cities may raise by means of levies.

Some states have gone even further and have subjected the levying of taxes and the incurring of debts by local governments to strict control and supervision. In some states, both taxation and indebtedness of local governments are involved in this policy of control; in others, only the latter. These experiments, although still of recent origin, warrant a brief description, since they perhaps represent the beginning of an important movement destined to have far-reaching results. The centralization, in the hands of an outside body, of the authority to determine the final levy of taxes and approve the issuance of bonds represents a departure from policies heretofore pursued and may prove to be an entering wedge for a general policy of taking a large part of the assessment and taxing machinery out of the hands of local officials and placing it with a central body.

System of Local Fiscal Control in Indiana

Powers of the State Board of Tax Commissioners

In 1919, the legislature of Indiana passed a law vesting in the State Board of Tax Commissioners control over *all* tax levies and over the bond issues of all local governments in the state. All hearings in connection with the operation of the law were held at Indianapolis, which seriously inconvenienced taxpayers living in distant parts of the state, and this no doubt served in many cases to discourage the filing of complaints by aggrieved taxpayers. As stated by the Board, "very often the taxpayer did not attend, but interested con-

[1] School districts must not exceed the average for 1918–1920 by 30%.

tractors and their attorneys were often the only ones present."[1] Before the rules could be modified to provide that all hearings be held locally, a protest was raised throughout the state that this legislation violated the fundamental principles of "home rule" and should therefore be stricken from the statute books. In response to this widespread protest, a special session of the legislature was convened in July, 1920, which repealed that part of the law of 1919 which related to the control by the State Board of Tax Commissioners over tax levies and bond issues.

In 1918, the year prior to the enactment of the law, the total levy of general property taxes for state and local purposes amounted to $68,367,035. In 1919, the year in which control was inaugurated, the public authorities of the state voted a total of $87,219,514, but the Board, exercising the authority granted by law, reduced this amount to $75,602,-477, a decrease of $11,617,037. In the following year, however, when the old conditions were restored, and the Board was deprived of its control over local finance, the total levy increased to $111,455,303, an increase of $35,852,826, or 47.4% in one year. It cannot be inferred, as has been maintained by the Board, that the entire amount of this increase represented the "cost of home rule," since in the year 1919, when the Board exercised control over local finance, it had approved an increase of $7.2 millions in the tax levy. At that time taxes were manifesting a substantial increase in practically every state in the Union. In the adjacent states, this phenomenon was particularly noticeable, as may be seen from the following table:

State	Tax Levy			
	1910	1919	1920	1921
Michigan	$85,100,000	$110,800,000	$140,400,000	$158,300,000
Wisconsin	56,300,000	70,200,000	96,300,000	97,100,000
Illinois	150,000,000	190,600,000	214,100,000	259,500,000
Minnesota	67,500,000	91,600,000	109,300,000	106,700,000
Iowa	65,500,000	..	..	104,200,000
Ohio	124,100,000	..	..	220,000,000

It cannot be denied, however, that the removal of state control had its psychological effect in acting as a spur to local extravagance.

[1] Annual Report of the State Board of Tax Commissioners, 1924. p. 9.

The relatively large increase in state and local taxation in Indiana in 1921 served to focus attention once more on the problem of controlling local finance; and in response to renewed importunities, the legislature amended the law and restored, with some modifications, the provision which had been repealed in 1920. Instead of granting to the Board the power to review on its own volition the tax levies and bond issues of local taxing units, the new law made such levies and bond issues amenable to review by the Board only upon complaint.

The law provides that after formulation and publication of a budget on forms prescribed by the State Board of Accounts, showing in detail the proposed expenditures of the coming year, the value of taxable property and the proposed tax rate, the legal officers of the municipal corporation (county, township, city, incorporated town, school corporation or any other taxing body) should proceed to establish the proper tax levies. In this procedure, public hearings on the proposed budget are provided for; and after the formal approval of the budget, the amount of the tax levy is reported to the county auditor who, in turn, certifies it to the State Board of Tax Commissioners.

Ten or more taxpayers in any taxing district, other than those who pay a poll tax only, who are affected by the levy as thus established, and who feel aggrieved with any item thereof, may file a petition with the auditor of the county in which the taxing district is located, setting forth on a prescribed form their objections to the tax levy. A copy of this petition must then be certified immediately by the county auditor to the State Board of Tax Commissioners, with such information as may be necessary to present the questions involved. The State Board of Tax Commissioners is required to fix a date for a hearing on this petition within a reasonable period of time. This hearing must be held in the county in which the taxing district is situated, and notice thereof must be given to the executive officer of the taxing unit and to the ten taxpayers whose names appear first on the petition. The State Board then has the power to *affirm* or *decrease* the total tax levy or any item thereof, and after its action is certified

to the county auditor, the decision of the State Board is final and conclusive.[1]

Control of Municipal Indebtedness

If a municipal corporation desires to issue bonds or other evidence of indebtedness in excess of $5,000, excepting temporary obligations, notice of its intention to incur indebtedness must be given by publishing it for two weeks in two leading newspapers of opposite political parties published in the taxing district in question or, in the absence of a newspaper therein, in the county in which the taxing district is located. Ten or more taxpayers, other than those paying a poll tax only, who will be affected by the incurring of this indebtedness and who are of the opinion that it should not be contracted or that it is excessive for the proposed purpose, may file a petition with the county auditor within fifteen days after the above notice is given, stating their objections and indicating why the proposed issues are held to be unnecessary, unwise or excessive, as the case may be. A copy of the petition is then certified to the State Board of Tax Commissioners, together with such other data as may be necessary in order to present the questions involved, and the Board is required to set the date for a hearing, not less than five or more than thirty days after receipt of the petition, the hearing to be held in the taxing unit or in the county where the taxing unit is situated. Notice of the hearing is given to the executive officer of the municipal corporation in question and to the ten taxpayers whose names appear first on the petition. These hearings may be held by one member of the Board or by any special representative; in the latter event, a written report of the facts submitted at the hearings must be filed with the State Board as part of the record. The Board then decides what amounts, if any, may be lawfully issued, and its conclusions are final. No bonds or other evidences of indebtedness of local governments, issued after the passage of the act in 1921, may bear a rate of interest in excess of 6%, and if an interest rate exceeding 5% is proposed the Board must approve the issue irrespective of whether or not a petition of protest is filed by ten or more taxpayers.[2]

[1] Burns' Associated Indiana Statutes, Supplement of 1926, Sec. 10, 139 (s) 7.

[2] *Idem.*

When a taxing district determines to finance public improvements (including roads, buildings, etc.) by bond issues for the redemption or payment of which a tax levy will be required under the existing laws of the state, it must first publish or post notice of this fact, and can not proceed to advertise for bids until the expiration of the time within which interested taxpayers are permitted to file a remonstrance. If a petition is filed, no bids may be advertised while the matter is pending before the Board, but the Board may require the taxing district to receive bids and report results within five days and must approve, disapprove or reduce the amount of the proposed bond issue or its rate of interest within fifteen days.

In addition, every local unit must make a report to the state examiner within thirty days of the close of the fiscal year,[1] in conformity with the uniform system of accounts established by the State Board of Accounts. A fine of not less than one hundred dollars and of not more than one thousand dollars is imposed for failure on the part of any public officer to file the report or follow directions and regulations prescribed by the state examiner. This report must present an accurate statement of all collections, uncollected accounts, expenditures, public debt and similar data. Examinations of the accounts of local government must be made at least once a year by the state examiner and his field assistants. Broad powers are conferred upon them to issue subpoenas for witnesses, for production of books, documents and papers, to adminster oaths, and so forth.

Accomplishments of the Indiana System

Two questions logically arise: how has this legislation worked and to what extent has it checked local government expenditure in Indiana? It must be acknowledged at the outset that it would be wholly unfair to judge the efficacy of this experiment by the positive reduction in tax levies and bond issues that has been effected by the State Board of Tax Commissioners and by the direct saving which has been made for the districts where remonstrances have been filed. It is impossible to estimate what the tax levies

[1] December 31st, except where otherwise fixed by law.

and bond issues of local governments in Indiana would have been, if no power had been conferred upon the State Board of Tax Commissioners to review and determine them upon the complaint of aggrieved taxpayers. The psychological aspect of the question must not be overlooked. The mere circumstance that the action of local taxing units is subject to review before an impartial state body, sitting locally and requiring no expense or formalities in its hearings, has undoubtedly operated to discourage initiation or continuation of projects and policies that were unwisely or improperly conceived. Beyond doubt, the present law has checked contemplated activities that might have been difficult to defend, and has caused local taxing officials to plan and scrutinize their budgets more carefully. Furthermore, the law has been in operation only a short time, and a relatively small number of taxing units have thus far availed themselves of their privilege to protest against proposed tax levies and bond issues. The State Board and other interested agencies have conducted a vigorous campaign to acquaint the taxpayers with their rights under the law, and as this educational movement progresses and bears fruit, they will no doubt take a more vigorous part in determining the course of local finances in the future.

As to the actual accomplishments of the State Board of Tax Commissioners, it has already been noted that in 1919, when the Board had control over all tax levies and bond issues of local taxing units and could take the initiative in reduction or elimination of any or all items, the levy was diminished by $11,617,037. Since 1921, the Board has reviewed only those levies and bond issues that have come before it upon complaint of ten or more taxpayers. In 1921, out of a total of 42 taxing units against whose tax levies remonstrances were filed, reductions were made in the case of 39 to the extent of $1,254,448. In 1922, out of a total of 74 complaints, reductions were made in 46 cases, amounting to $1,034,572. In 1923, remonstrances against tax levies were filed in 37 taxing units, and the Board granted reductions in 25 taxing units to the amount of $1,874,070. In 1924, the tax levies of 48 taxing units were reviewed, and reductions were made in 41, amounting to $1,467,345. In 1925, levies of

113 communities were examined, and the saving in 65 taxing units was $1,554,004. When it is realized that there are 2,968 taxing units in the state and that only a small fraction of them have thus taken advantage of the privilege of remonstrance, the potentialities in the direction of eliminating unnecessary or excessive levies may well be appreciated.

From March 10, 1921 to October 10, 1925, the Board has approved the issuance of $26,754,743 in bonds and has *disapproved* of $18,251,461. To the extent that these bond issues were found to be unnecessary or unwise, there has been an annual saving to future taxpayers equivalent to the yearly requirement for interest and amortization of this total. In 1925 the Board reviewed 135 bond issues and disapproved of $3,448,202 while giving its approval to the issuance of $2,737,875.

The extent to which the legislation above described has checked the growth of taxation and governmental expenditures in Indiana can not be definitely stated, as the period under review has been short and the condition of the public finances of local governments throughout the country during the past few years appears to have been extraordinary and in a sense unprecedented. Taxes levied by all local authorities in Indiana rose from $60,082,404 in 1918 to $64,821,697 in 1919 and to $99,311,883 in 1920. For a period of two years thereafter there was relatively little change, the figures for 1921 and 1922 being respectively, $100,468,512 and $100,354,219. In 1923, the total levy for local needs began to rise again, amounting to $108,526,898 in that year and to $111,446,770 in 1924. Total local governmental expenditures, as distinguished from tax levies, increased from $162,151,962 in 1924 to $177,877,026 in 1925.[1] On the other hand, total outstanding indebtedness of local governments declined slightly, from $176,194,464 in 1923–1924 to $175,523,400 in 1924–1925. The mere fact, however, that these figures would have been higher, if the reductions actually effected by the State Board of Tax Commissioners had not been made, appears to be sufficient vindication of the legislation whose principal purpose has been to drive home the lesson that local budgets should be carefully and intelligently studied by taxpayers

[1] Figures supplied by the Indiana Reference Bureau.

and that taxing officials should exercise their utmost diligence in disbursing public funds. To the extent that the law has accomplished this aim, even though, because of inertia and lack of popular knowledge as to its possibilities, positive accomplishments may have been relatively small, it has justified itself as a means of stemming the unwise expenditures on the part of local governments.

System of Local Fiscal Control in New Mexico

In 1921, the New Mexico legislature adopted a law which provides that no county, city, town, village or school district may in any one year make a levy of taxes which exceeds the levy of the preceding year by more than 5% except as otherwise provided by law.[1] If the local taxing district feels, however, that its activities would be seriously curtailed as a result of this limitation, it may appeal to the State Tax Commission after setting forth the facts in the form of a specially written request. If an excess over the statutory levy is approved, the State Tax Commission must specifically authorize the amount; if it is disapproved, the Commission must so state, with its reasons therefor, and its decision is final and conclusive.[2]

The State Tax Commission is also charged with the duty of requiring officers or governing bodies of all counties, municipalities, school districts or any other district having the power of taxation or the authority to expend public monies, to furnish and file with the Commission, by a given date, budgets showing in detail the financial condition of the reporting districts and containing estimates of the needs for which taxes must be levied. The budgets must be in a form prescribed by the Commission and must contain such information as the Commission may require. After examining them, the Commission has the power and is charged with the duty of amending, revising, correcting or approving them, and its action upon them is certified to the boards of county commissioners. The budgets, as finally approved by the State Tax Commission, become binding on all tax officials in the state.[3]

[1] Laws of 1921, Ch. 133, Sec. 310. [2] *Ibid.*, Sec. 311. [3] *Ibid.*, Sec. 507 (8).

In the case of state educational institutions, and county and municipal schools and school boards, a state school auditor exercises control over and supervises the levying of taxes and disbursement of public funds, but this official is subordinate to the State Tax Commission and he follows the same procedure as above described.[1]

In the first year of its operation, the State Tax Commission reported that it "has been able this year to effect a great many economies and in fact to accomplish a reduction of approximately 18% in total taxes levied. . . . The reductions in the budgets were not brought about by arbitrary actions or orders on the part of the Tax Commission but were largely caused by conferences and interchange of views between the local authorities and the commission. In almost all cases reductions made met with the approval of local authorities.[2]

Particularly noticeable is the reduction in county tax levies from $7,547,577 in 1921 to $5,624,558 in 1924. Tax levies for county special funds and for cities, towns and villages have fluctuated within relatively narrow limits, while school district levies have been increasing, a development which is in conformity with the trend throughout the country. The outstanding facts are that tax levies of all local governments in 1924 were lower than in 1921, the figures being $7,642,384 and $9,306,651 respectively, and that the action of local taxing officials is subject to complete review by, and must be defended before, the State Tax Commission, a circumstance which in itself inspires economy and makes for wiser handling of public moneys.

System of Local Fiscal Control in Oregon

In 1921 the legislature of Oregon enacted a law providing that a supervising and conservation commission, consisting of three persons appointed by the Governor, should be created in every county which then had or should thereafter have a population of 100,000 or more.[3] As there is only one county

[1] Laws of 1921, Ch. 190.

[2] Fourth Biennial Report of State Tax Commission, p. 13.

[3] General Laws of 1921, Ch. 208.

in the state which has a population of 100,000 or over, Multnomah County, in which the City of Portland is located, this legislation partook of the nature of a special law aimed at the largest city of the state. In 1923 the legislature extended this provision to all counties in the state and thus made it general in its applicability.[1] The latter law has, however, been declared unconstitutional by the Supreme Court.[2]

As provided by the 1923 legislation the county supervising and conservation commissioners appointed by the Governor should be residents and taxpayers in the respective counties and serve without compensation. They were to exercise jurisdiction over all municipal corporations that have the power to levy taxes, except irrigation and drainage districts, and district improvement companies which were expressly exempted from this form of control.[3] The county commissions were required to compile statistical and other information as to public indebtedness, incurred by all the local governments in the county, and to issue statements as to annual interest charges. They had the power and authority to demand, from any public official in the county, data concerning the expenditures of his department. They were required to keep an accurate record of municipal expenditures and had the power to inquire into the management, books of account and systems employed by all municipal corporations in the county or any department thereof.

It was provided that every municipal corporation (county, city, town, park, union or high school, road or water districts, dock commissions, etc.) must submit annually its budget estimates for the coming year to the county commissions, on or before the first day of October. This budget must be "so prepared and arranged as to show in plain and succinct language each item of proposed expenditure." The original estimate sheets must be also submitted and must show in parallel columns the unit costs of the three years preceding the current year, the detailed costs and the budget allowances for the last one of the three years, and also the actual expenditures for six months of the current year.

[1] General Laws of 1923, Ch. 142.
[2] Letter of State Tax Commission, dated March 23, 1926.
[3] General Laws of 1923, Ch. 209.

The county commission would then examine these budgets carefully and then arrange for public hearings to which all local levying authorities were entitled by law. After the hearings were held, the county commission would approve, reject or reduce the tax levy or any item thereof, but could increase these amounts only by unanimous vote. It then ordered the levying boards to levy the tax in accordance with its findings, which were binding and conclusive. The law went further than this mandatory legislation implies and placed a fine upon municipal corporations for each day that they failed, refused or neglected to submit their budgets as required, to attend hearings of the county commission or to comply with its orders. The county commissions were required by law to make annually a full and complete report to the Governor.

This legislation was intended to place the tax levies and expenditures under the control and supervision of an independent county agency and differed from the Indiana law in that the Oregon statute vested the control over local government levies and bond issues in the hands of a body which was closer home and was more likely to be responsive to local sentiment and sympathetic to local needs. Oregon attempted in this way to overcome the objection that has been raised against the method followed in Indiana, namely, that the state body in which control is centralized is somewhat removed from the local perspective and hence can not fully appreciate the desires and aspirations of local communities as reflected in their budgets. Furthermore, the Oregon law embodied automatic and volitional control, without interfering with the right of the people to override the county commissioners by popular referendum, whereas the State Board of Tax Commissioners in Indiana can act only upon the initiative of ten taxpayers, although its decisions are final and presumably can not be altered by any referendum.

The effectiveness of the Oregon system of local fiscal control may be seen from the annual figures compiled by counties, showing the trend of tax levies from 1921 to 1924. In Multnomah County, which contains within its boundaries the City of Portland and to which supervision and control

over local finances by county commissioners was first applied in 1921, the taxes levied for all local government purposes declined from $11,436,145 in 1921 to $10,043,274 in the following year, a decrease of 12.2%. In 1923, there was an increase to $11,139,445, but in 1924 a decline was again reported, the figure being $10,432,162 or almost identical with that of 1921. In the remaining counties of the state, control by a county commission was not instituted until 1923; but this law was declared unconstitutional by the Supreme Court, as stated above, before it effects could be determined.

System of Local Fiscal Control in Oklahoma

County Excise Boards

In each county of the state of Oklahoma excise boards have been established by law, composed of the county clerk, county attorney, county treasurer, county judge, county superintendent, county assessor and one member of the board of county commissioners.[1] The county excise board meets on the last Saturday in July for the purpose of examining financial statements by all local authorities in the county. The excise board has the power to revise and correct any estimate certified to it and to increase, decrease or add any items thereto. It may require detailed specification of the appropriation items and it can impose special restrictions on appropriations. It determines the amounts of the various sinking funds, which it certifies to the clerks of the municipal corporations concerned. The county excise board has further power to make supplemental and additional appropriations. If the amount certified by the excise board as necessary should exceed the tax rate limitation imposed by law, then a special election must be held, and the excess must be approved by a majority vote, with at least 50% of the qualified voters in the district voting.

This legislation resembles that enacted in Oregon in that it vests full and complete control of local finances in a county agency, especially created for this purpose. No concrete information is, however, available as to the practical opera-

[1] Bunn's Compiled Statutes, 1921, Secs. 9694 and 9698.

tion of the law, since no data upon taxes or expenditures are collected by any central agency of the state government. From indirect information it appears that the system has not worked so satisfactorily as might have been expected.

The principal criticism levelled against the present system of excise boards is the fact that they are composed of elective officials. As stated in the Governor's biennial message, "in other words, the same officials who spend the money of the county also decide how much money they will spend. The argument favoring the creation of such a board was, these officials would be better acquainted with the needs of the county and the various officials than a board composed of persons other than such officials. However, we have seen in many instances that this board has been more interested in making large appropriations than in holding taxes down to the lowest level consistent with efficiency and economy in municipal and county government."[1] Accordingly, Governor Trapp recommended that the county excise boards should consist of freeholders, elected by voters of the county and serving without compensation; but the legislature did not see fit to adopt the suggested change for the entire state, although it did enact such a provision for Oklahoma County.[2]

System of Local Fiscal Control in Colorado

Provisions for Rates of Taxation

The legislation of Colorado has provided certain maximum rates of taxation for certain purposes which may not be exceeded by the local governments and has stipulated, in addition, that no tax levy in any year may exceed the previous year's levy by more than 5%. But if any board of levy or any officer charged with such duty is of the opinion that the amount of tax, thus limited by law, is insufficient for the needs of the taxing district for the current year, the question may be submitted to the State Tax Commission.[3] If upon examination the State Tax Commission finds that an increase over the limits prescribed by law is justified, it may recommend such levy, and the taxing district is thereby authorized

[1] Governor Trapp's Message, 1925, p. 56–57. [2] Laws of 1925, Ch. 176.
[3] Compiled Laws of 1921, Sec. 7216.

to increase the levy by a maximum additional 5 mills. If the State Tax Commission refuses or fails to recommend an increase or if the additional five-mill levy permitted proves insufficient, the question may then be submitted to the voters. If approved by three-fourths of those voting, the levy is validated, and the officers of the local government may then proceed to make the extension on the tax rolls.

It will be seen from the above discussion that the power of control over local tax levies by the State Tax Commission is rather limited, in that it is confined to any excess of the proposed levy over the limitations prescribed in the law and that it can approve an increase of only 5 mills. While local officials prefer to have the proposed tax levies in excess of legal limitations considered by the State Tax Commission than to incur the risk of defeat at a referendum, the alternative of having the matter determined at the polls always remains open to them. To the extent that the decision of the State Tax Commission may be thus over-ruled, there is manifestly a decided weakness in the present law. Furthermore, it should be noted that local budgets do not have to be submitted to the State Tax Commission, nor has the latter any supervision over bond issues.

There has been a continued falling off in the number of applications filed by local taxing units with the State Tax Commission for authorization to increase their tax levies over the limitations fixed by law. The aggregate number of these applications declined from 389 in 1922 to 351 in 1923 and to 286 in 1924. This reduction in number of requests for approval of excess levies is, however, no indication of the efficacy of the law in discouraging extravagance, since there is no record of amounts approved directly by the electorate which might offset the declining number of applications of local governments before the State Tax Commission. Furthermore, as the agitation for lower assessments, carried on throughout the state on the part of interested parties in 1922 and 1923, has gradually subsided, local governments have found the tax-rate restrictions in the law less unbearable, and the situation is slowly becoming more normal. On the whole, there is, therefore, little to learn from the experience in control of local government taxation in Colorado, since the

powers of the State Tax Commission in these matters are of no great consequence.

System of Local Fiscal Control in New Jersey

The New Jersey statute provides that every county school district and municipality in the state shall adopt a full and complete annual budget, specifying in detail the items of anticipated revenues and expenditures. Appropriations may be later increased or diminished to the extent of 10% by tax ordinance or resolution, but the gross additions or deductions must not exceed 5% of the total appropriations in the adopted budget. Mandatory appropriations omitted from the budget are excluded from this restriction. With few exceptions, all revenues are required to be turned into the general treasury, thus eliminating the dedication of specific revenues to specific purposes, which has proved to be a source of inefficiency in the past. Separate accounts must be kept for public enterprises or utilities, so that the taxpayer may know whether or not they are run at a profit. The Commissioner of Municipal Accounts is required to certify to each locality the sinking fund requirements and annual appropriations necessary on account of bonds falling due, which must be included in the budget. Rigid control over the surplus revenue account is provided for, and money borrowed from it must be repaid to the account by an appropriation in the succeeding year. For current needs, local governments may borrow on tax anticipation notes or bonds to the extent of 50% of the amount to be raised by taxes after deduction of the sinking-fund appropriation and of the state and other local taxes with which it is not directly concerned and in connection with which it acts merely as a collecting agency.[1] Tax anticipation notes or bonds must be repaid within the fiscal year, but in the case of delinquent taxes they may run longer, labeled as "tax revenue" notes or bonds; these may be renewed from time to time but must finally be paid by the end of the fourth year after the tax becomes delinquent. In an emergency, local governments may incur indebtedness by

[1] When principal and interest on the public debt fall due, the power is granted to borrow 100% on the amount of these items.

a two-thirds vote of the governing body. If these emergency bonds or notes amount to less than one-third of a mill of the assessed valuation, they must be included in the next year's budget; otherwise payment may be spread over several years at the rate of one-third of a mill per year.[1]

Municipalities with an assessed valuation of three million dollars and more, and all counties must have an annual audit made of their accounts. The accounts of municipalities with assessed valuations of less than three million dollars are audited every second year.[2] Auditors must be licensed by the Department of Municipal Accounts,[3] and their findings and recommendations must be filed with the department and must be published by the city or county clerk on the penalty of a fine for each day of neglect or failure to do so.[4] A uniform fiscal year is imposed on all local governments, with the exception of school districts,[5] and a uniform system of accounting has been established by the Commissioner of Municipal Accounts, who also has sweeping powers of investigation in the case of errors, irregularities, inaccuracies and omissions as ascertained in the annual or biennial audits, with power to enforce such recommendations as have been made.[6] New indebtedness must be reported to the Commissioner, who, in turn, certifies back to the locality the amounts necessary for sinking funds and to meet maturing instalments of indebtedness.[7]

To conserve the credit of the local governments and to restrict the burden of public improvements to the generation that enjoys the benefits, measures have been passed which stipulate the maximum amounts, terms and maturities of indebtedness incurred for specific classes of public projects.[8] All bonds issued must mature in annual instalments (i. e., serial bonds) commencing not more than two years from their date of issue, but no instalment may be more than 50% in excess of the smallest prior instalment. Bonds may not be issued with a longer maturity than the life of the improve-

[1] Chapter 192 of the Public Laws of 1917 as amended.

[2] Public Laws of 1918, Ch. 268.

[3] *Ibid.*, Ch. 267. [4] *Ibid.*, Ch. 268. [5] *Ibid.*, Ch. 238.

[6] Public Laws of 1917, Ch. 154, as amended.

[7] Public Laws of 1917, Ch. 154, and Public Laws of 1918, Ch. 266.

[8] Public Laws of 1916, Ch. 252, as amended by Public Laws of 1917, Ch. 240, and Public Laws of 1920, Ch. 108.

ment. The maximum probable life of improvements is fixed in the law, as for example, 40 years for sewer and water supply systems, 30 years for gas systems, 20 years for electric light or power systems, 10 years for garbage disposal plants, 50 years for parks and so forth. Bonds exceeding $10,000 in amount must be sold at not less than par upon sealed proposals or at public auction. One-third of the governing body in office, or taxpayers representing 10% of the assessed valuation, may hold up the issuance of bonds by local governments, until the proposition is approved by a majority of the qualified voters. Statements must be filed annually with the Commissioner of Municipal Accounts, indicating an itemized account of gross indebtedness, special assessment and water debt, cash on hand and in sinking funds, current and unpaid taxes, net debt, the three average preceding valuations and the percentage of the net debt to the valuations.

System of Local Fiscal Control in Massachusetts

Massachusetts has created the new office of Director of Accounts, whose certification is necessary before temporary notes can be issued by the various towns. Bonds issued by towns and notes and bonds issued by cities do not, however, require the certification of this officer. The amount which may be borrowed in anticipation of taxes is limited to the amount collected in taxes in the previous year,[1] which must be repaid within one year, and a report thereof must be made to the Director of Accounts. Borrowing for current purposes and refunding are prohibited, and this measure is made enforceable by the requirement that approval of the Director of Accounts must be secured. Bonds issued for permanent improvements must mature within specified periods, which vary with the character of the improvement, as for example, 30 years for sewers and parks, 20 years for school houses, and so forth. Only in emergency cases may communities borrow sums amounting to less than 25 cents per $1,000 of valuation for the preceding year. Borrowing outside the debt limitations[2] is permitted for water works and for

[1] Including their share of state taxes, but excluding special assessments.
[2] 2½% for cities and 3% for towns.

municipal enterprises. A two-thirds vote of the people is required for approval of debt proposals. Serial method of redemption is mandatory. The accounts of every city and town, except Boston, must be audited at least once in three years. While compulsory acceptance of a uniform accounting system has not been effected, the law requires the cities to report to the Director of Accounts all receipts and payments and to furnish a statement of the public debt on prescribed standard forms. Whenever special legislation or treatment is requested by a city or town at the hands of the legislature, it is provided that the Director of Accounts shall examine the petitions and advise the legislative committee to which it has been referred, thus insuring expert handling of local debt problems.

System of Local Fiscal Control in North Carolina

The Municipal Finance Act passed by the legislature of North Carolina in 1917, and subsequently amended, is patterned closely upon the New Jersey statute. Annual municipal budgets are mandatory, and they must contain an itemized statement of appropriations, revenues and the financial condition of the municipality. Temporary borrowing in anticipation of taxes is permitted, but these loans must be repaid not later than October 10th of the next succeeding fiscal year. Borrowing for current expenses is prohibited, and specified maximum maturities are provided for bonds issued to finance public improvements. Twenty-five per cent of the total number of voters, registered at the last preceding election, may petition that a bond ordinance be submitted to all the voters for approval. Bonds for objects other than necessary expenses must be sanctioned by a popular vote. The serial method of retiring bond issues is compulsory. Bonds must be sold at not less than par and must not bear an interest rate above 6%. The law states that "The full faith and credit of the municipality shall be pledged for the punctual payment of the principal of and interest on every bond and note issued under this law." An annual tax sufficient to pay principal and interest on all bonds must be levied, and such a levy is not subject to the

maximum limitation on other tax rates. Annual statements must be filed with the state auditor as to the details of outstanding indebtedness, and the latter must certify to the municipalities the amount of taxes to be raised annually for debt purposes. Failure to levy the proper amount of taxes for this purpose involves a personal penalty upon the levying board.[1]

System of Local Fiscal Control in Ohio

After unsatisfactory experience with the tax limitation laws enacted in 1910 and 1911, which led to wholesale borrowing on the part of local governments, the Ohio legislature passed laws in 1921 considerably modifying the legislation previously in effect. In anticipation of general revenues, municipal corporations may borrow on certificates running for a period no longer than six months, carrying a rate of interest of 6% or less and saleable at or above par. Borrowing for current operating expenses is prohibited. The acquisition or construction of property, assets or improvements which have a life of less than five years is interpreted by the law as a current expense. Specific maximum maturities are fixed by the law. The maximum net indebtedness that may be incurred without a vote of the people is 2½% of the assessed valuation of taxable property in the taxing district, while indebtedness up to 5% may be incurred by a popular vote. For school districts, the maximum net indebtedness is 7½%. Bonds that may be issued without a vote of the people have been progressively limited by various subsequent laws, and approval of an extra tax levy for interest and amortization must now be secured along with approval of the bond issue. Serial bonds are made mandatory.[2]

The rudimentary system of county control of local finances, established by the 1921 law, was expanded by legislation in 1925.[3] It was provided that, beginning in 1926, the fiscal years of the local governmental bodies shall coincide with the calendar year.[4] The local budgets for the coming year

[1] Supplement to the Consolidated Statutes, 1924, Article 23, Secs. 2918–2969.

[2] Laws of 1921, pp. 348 ff. and laws of 1923, pp. 456 ff.

[3] Laws of 1925, p. 371.

[4] Except that the school year continues to be from July 1 through June 30.

must be adopted on July 15 of the preceding year. They must be written down in detail upon uniform blank forms provided by the county auditors and must be submitted for examination to the county boards of fiscal review, composed of the county auditor and the budget commission in each county.

The local governments may make only such expenditures as are authorized by the appropriations noted in their budgets. These local budgets are examined by the county boards of review to ascertain that appropriations do not exceed revenues. Within the limits of the law, these local budgets may be amended and revised by the county boards. A check upon the activities of the county boards is provided in the provision allowing appeal from the rulings of these boards to the State Tax Commission. This body also has the duty of reviewing the budgets of the counties. An additional check upon local finances is found in the power of the State Board of Inspection and Supervision of Public Offices to require full financial statements from any local governmental body.

All tax revenues are collected by the counties and payments on the warrants of the local governments are made by them. The counties maintain a reserve sufficient to cover such payments as they must make on local account.

This system of centralized control of local finances has not been in operation a sufficient length of time to warrant a judgment upon its effectiveness.

System of Local Fiscal Control in New Hampshire

New Hampshire has provided that municipalities or counties may not borrow for payment of current operation and maintenance expenses, except in anticipation of taxes. Bonds may be issued for lands and improvements, but they must be retired serially within a period of twenty years. Debt limitations are established as follows: 3% of the last assessed valuation for counties, 2% for school districts, 1% for village districts, and 6% in the case of several municipal corporations extending over identical territory. Bonds issued by towns or districts must receive the approval of two-

thirds of voters present and voting at the special or annual election called for this purpose; in all other cases, majority or two-thirds action by the governing body is required.[1]

Possible Application of Local Fiscal Control in Illinois

From the above analysis of the various systems of local fiscal control, it appears that a definite beginning has already been made by a number of states toward introducing organization in the financial affairs of their civil subdivisions and toward subjecting local budgets to scrutiny and control either by a state body already in existence or by special county boards. While these measures are still in an experimental stage and while the period since their enactment is a relatively short one, it appears that the actual savings already effected and the altered psychological attitude which these measures have engendered in local taxing officials have been sufficiently important to warrant an optimistic view as to their general wisdom and efficacy.

Control over local budgets, tax levies and bond issues vested in a state body may err somewhat on the side of conservatism and inflexibility, but it assures a more detached and broader viewpoint on matters of public finance than can be secured through county boards or similar agencies which are bound to the taxing district by home ties or other affiliations. Which of the two systems of fiscal control is superior depends largely on the size of the state, the political temper of its people and the complexity of its economic life. On the basis of the present standards of public service in Illinois, it might be wiser for the state to adopt some plan of control by the county boards rather than by a state body until such time as political conditions should warrant the concentration of this function in a central body. These agencies should be independent of the governing or taxing bodies in the county and should consist of elected officials serving without pay and representing various economic groups in each county. They should have full powers to investigate, examine and act on their own volition, and to approve or disapprove any or all items in local budgets and levies.

[1] Report of the Commissioners to Revise, Codify and Amend Public Laws, 1924, Ch. 59.

CHAPTER III

STATE AND LOCAL INDEBTEDNESS IN ILLINOIS

PUBLIC loans are of two principal types, long-term or bonded debt and short-term borrowings. The latter class may be further subdivided into (1) the bank loan, (2) the treasury bill, note or certificate of indebtedness, (3) the treasury warrant, and (4) the demand note.[1] In addition to the necessary long-term bonded debt, local governments make almost universal resort to the first and third forms of short-term borrowing. In Illinois, excessive local use of the treasury or tax anticipation warrant has created a distinctive fiscal problem.

Floating Indebtedness

Many of the local governments in Illinois finance the expenses of the current year by issuing tax warrants on the anticipated receipts of the following year. The taxes on which the warrants are issued are the levy of the current year, but inasmuch as these taxes are not collected and do not pass into the hands of the local treasurers until the succeeding year, the outstanding tax warrants constitute a floating indebtedness of no little importance.

There is an inherent limit to the amount of floating indebtedness which can be incurred, since the legal basis of the anticipatory tax warrants is the levy of the current year; hence the total of such warrants can not, at any time, exceed the year's levy. This inherent restriction is further limited by statute.[2] Anticipatory tax warrants may be issued to the extent of only 75% of the current levy. It is possible, however, to evade this limitation without great difficulty. A frequent procedure is for the district or municipality to fix its

[1] Harvey L. Lutz, "Public Finance," Appleton, N. Y., 1925, pp. 544–5.

[2] Revised Statutes, Ch. 146½, Sec. 2.

levy in excess of the limitations of the Juul Law, and to issue warrants upon three-quarters of the amount of the levy so fixed. The reduction of the levy is not applied to the anticipatory warrants issued. By this subterfuge, the city of Chicago has consistently issued warrants in excess of the three-quarters limitation.

The anticipatory tax warrant appears to possess some of the qualities of a habit-forming drug. If a community in any one year decides to cover a revenue deficit by resort to a small issue of anticipatory warrants, it is not unlikely that by the end of the next fiscal year it will be found that the revenues of the year have not been sufficient to cover both the year's expenditures and the preceding year's warrants. The result is a new issue of warrants. The warrants provide an easy means of expanding the year's expenditures beyond what the year's collections permit. The fiscal reports of the Illinois local governments show clearly that this opportunity has not been overlooked. To take a single striking example, the city of Chicago school district had practically no floating indebtedness in 1914. On July 31, 1926 there were $31,200,000 of warrants outstanding.

In 1922 the local governments of Illinois had $95,190,000 of such floating indebtedness outstanding. The state government was responsible for $1,142,000, the counties for $10,087,000, incorporated places for $37,871,000 and other civil divisions for $46,090,000. The cities and incorporated towns in Illinois had also incurred $49,116,000 of special assessment loans. Other local civil divisions were similarly indebted.[1] In 1922, only one other state carried so large a floating debt. New York had a total of $147,681,000[2] of tax warrants and special assessment loans outstanding, as against a total for Illinois of $147,155,000. Michigan came third with $104,197,000.

This practice is often condoned by a reference to precedent and the inherited situation. The argument is sometimes offered that, since the tax collections of each succeeding year are larger than those of the preceding year, this method of

[1] U. S. Bureau of the Census, "Wealth, Debt and Taxation: 1922—Public Debt," p. 82.

[2] *Ibid.*, p. 83.

government finance enables the government to spend somewhat more than the current year's collections. Against this questionable advantage must be set the burden of interest payment and the fact that this policy tends to encourage extravagance. The interest burden of floating indebtedness is heavier than of an equal amount of funded debt, because the short maturities of the warrants necessitate a higher rate of interest.

The root of the anticipatory tax warrant evil is the irresponsibility that tends to creep into local governmental expenditure. The essential solution of the difficulty will be found in an effective control of the finances of the local governments by higher governmental agencies, as described in Chapter II of this study.

The Increase of the Funded Debt

The funded debt of the Illinois state government amounted in 1925 to $125.8 millions or $17.74 per capita, as compared with $12.7 millions or $1.91 per capita in 1922, and $17,000 in 1913. The funded and fixed debt of the Illinois local governments in 1925 amounted to $281.4 millions, as compared with a debt of $204.9 millions in 1922 and $88.6 millions in 1913.

The increase of the state debt between 1913 and 1922 was over sixfold. The local debt during the same period increased 131.3%. The new state indebtedness incurred after 1922 for road construction and for the soldiers' bonus resulted in a further ninefold increase by 1925. The local indebtedness during these three years increased 37.3%. Table 8 shows the borrowings of the state and local public authorities in Illinois.

Of the $377,869,530 of bonds issued by all Illinois governmental authorities during the six years, 1921 to 1926, the state government, the cities and the special civil divisions issued $332,543,930, or 88%. As stated elsewhere,[1] the state has been authorized by popular vote to issue a total of $215,000,000 in bonds for roads and for soldiers' bonus, and inasmuch as on July 1, 1926, $71,000,000 remained to be

[1] See above, p. 13.

TABLE 8: BOND ISSUES OF PUBLIC AUTHORITIES IN ILLINOIS, 1913 TO 1926.

(Source: *The Commercial and Financial Chronicle*)

Year	State	Counties	School Districts	Cities, Towns, Villages, and Special Civil Divisions	Total[1] Gross Borrowing
1913	..	$2,363,125	$1,160,700	$3,276,772	$6,800,597
1914	..	1,299,500	1,602,641	5,081,650	7,983,791
1915	..	1,335,061	2,961,600	14,398,682	18,695,343
1916	..	2,827,000	1,786,650	8,643,200	13,256,850
1917	..	1,400,000	592,700	7,653,020	9,645,720
1918	..	255,000	451,950	6,336,000	7,042,950
1919	..	4,868,800	1,367,700	4,404,000	10,640,500
1920	..	2,709,000	3,558,000	18,750,000	25,017,000
1921	$5,000,000	6,750,000	2,239,500	40,575,000	54,564,500
1922	12,000,000	3,514,500	4,564,500	22,897,500	42,976,500
1923	65,000,000	3,461,500	2,256,000	22,158,600	92,876,100
1924	35,000,000	3,143,000	5,358,500	26,229,270	69,730,770
1925	21,650,000	4,375,000	3,408,800	43,893,160	73,326,960
1926	5,000,000	3,159,300	3,095,000	33,140,400	44,394,700

[1] Includes refunding bond issues.

issued, it is likely that the public debt of Illinois will continue to show substantial gains during the next few years. Since public credit is merely a form of postponed taxation, the burden of the debt thus incurred will fall upon future taxpayers, and the problem of meeting interest payments and amortization requirements by increased revenue is one which will have to be faced in the near future. Assuming an interest rate of 4% and a period of maturity of twenty years, with annual payments of principal in equal instalments, the state debt as authorized will require at least $20 millions annually for debt service during the first few years. While a part of this increase may be met by revenue drawn from new users of automobiles as a result of the annual gain in automobile registration, it is probable that new sources of revenue will have to be secured and old sources tapped to a larger degree than heretofore. The purposes for which this debt burden has been incurred are shown in Table 9.

Of the $398.5 millions of bonds issued by the Illinois state and local governments during the ten-year period, 1916 to 1925, $163.3 millions, or 41%, were used for the construction of roads. Approximately 50% of these road and highway bonds were issued by the state government, and 50% by the

Table 9: Purpose of Net Bond Issues of Public Authorities in Illinois, 1913 to 1925

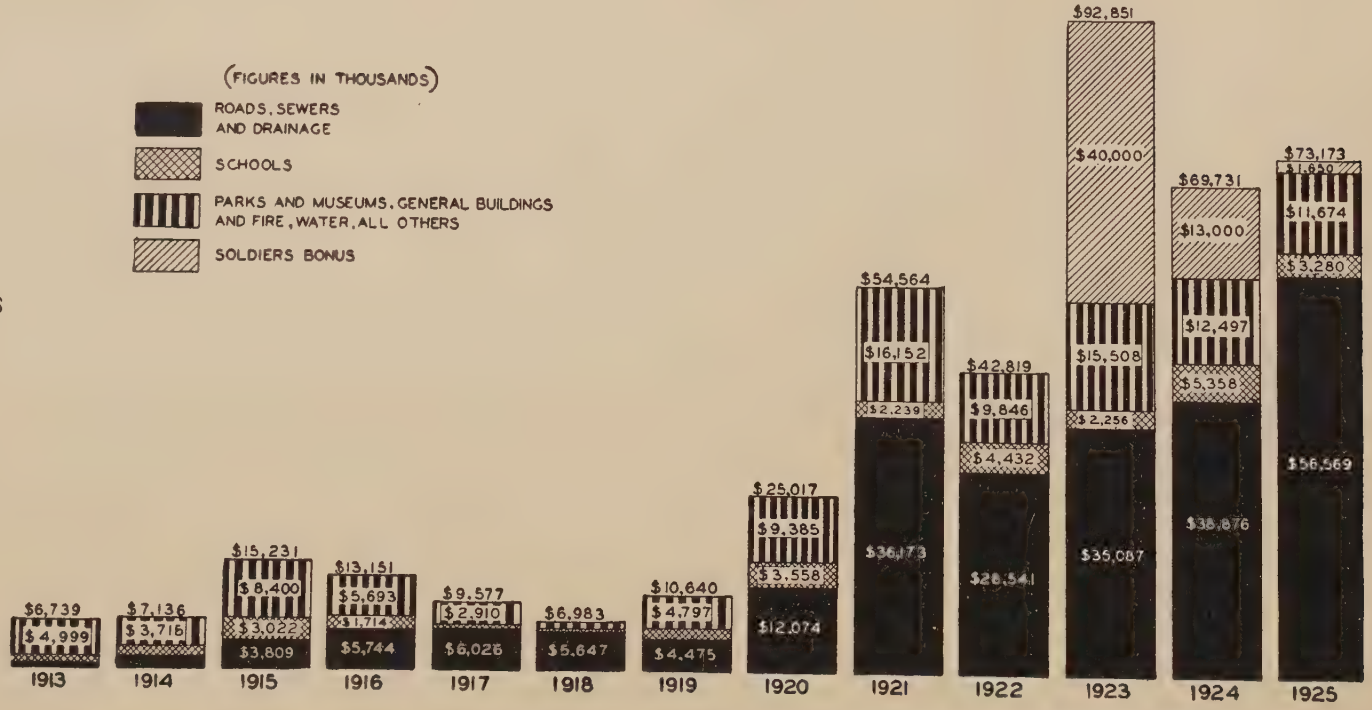
(Source: *The Commercial and Financial Chronicle*)

Year	Water	Roads, Streets and Bridges	Sewers and Drainage	Schools and School Buildings	General Buildings and Fire	Parks and Museums	Electric Light and Gas	Funding	Improvement	Soldiers' Bonus	Flood Prevention	Harbor and Waterfront	Rapid Transportation, Ferries and Canals	Miscellaneous	Total[1]
1913	$442,200	$310,425	$259,272	$1,169,700	$2,446,500	$671,000	$11,500	$48,000		..	..	..	..	$1,380,000	$6,738,597
1914	193,150	1,309,200	509,300	1,602,641	1,720,500	345,600	14,500	51,500		..	..	..	..	1,389,400	7,135,791
1915	344,750	1,414,961	2,393,932	3,021,600	2,619,500	1,965,000	55,600	283,900		..	..	..	..	3,131,400	15,230,643
1916	346,500	5,365,300	378,700	1,713,650	2,132,000	1,389,000	346,000	..		..	..	..	..	1,479,700	13,150,850
1917	100,500	2,545,600	3,479,920	640,700	666,300	678,800	1,383,000	40,000		..	..	..	..	41,900	9,576,720
1918	277,000	3,424,000	2,223,000	431,950	34,000	560,000	7,000	26,000		..	..	..	..	..	6,982,950
1919	33,000	4,134,000	341,500	1,367,700	..	142,000	3,000,000	1,159,500		..	..	..	..	462,800	10,640,500
1920	679,000	9,814,000	2,260,000	3,558,000	1,040,000	1,565,000	..	6,097,000		..	..	..	..	4,000	25,017,000
1921	662,000	27,873,000	8,300,000	2,239,500	1,661,000	5,390,000	10,000	454,000	..	..	$250,000	..	..	7,725,000	54,564,500
1922	226,000	19,184,500	9,357,000	4,432,500	36,000	5,850,000	2,129,000	9,000	800,000	..	686,500	..	..	109,000	42,819,500
1923	528,000	26,557,300	8,529,300	2,256,000	362,000	13,772,000	..	335,000	..	$40,000,000	361,500	..	$150,000	..	92,851,100
1924	697,650	27,818,000	11,058,320	5,358,500	290,200	10,807,000	14,000	110,000	240,300	13,000,000	150,000	$300	175,000	11,500	69,730,770
1925	1,402,900	36,568,460	20,001,000	3,279,800	1,750,100	7,274,000	8,000	268,000	795,700	1,650,000	..	..	..	175,000	73,172,960

[1] Does not include refunding bond issues.

Chart 3: Purpose of Net Bond Issues of Public Authorities in Illinois, 1913 to 1925

(National Industrial Conference Board)



counties, road districts and municipalities. Sewer and drainage bonds were next in importance, $65.9 millions of these bonds having been issued during the same period. The $47.4 millions of bonds issued by the park districts during this period represented 11.9% of the total. The $25.3 millions of bonds issued to cover school and library construction comprised only 6.3% of the total.

Relative Burden of the Funded Debt

In 1913, the funded debt of Illinois, less the amount of the local sinking funds, amounted to $88,653,000, as shown in Table 10.

The total net funded debt[1] of the Illinois state and local governments in 1913 represented a per capita net debt of $14.98. The per capita average for the country in this year was $33.16. If the states are arranged in the ascending order of their per capita debt in 1913, "one" being the state with the lowest per capita net debt, it is found that the middle position lies between Wyoming and Nebraska, with per capita net debts of $21.69 and $22.20 respectively, while Illinois in this order ranks thirteenth.

Because of the high per capita wealth in Illinois—$2,663 in 1912, whereas the country's average for that year was $1,950—Illinois' ranking by the ratio of her net state and local debt to her wealth was even more favorable, giving her fifth place.

The increase of the net debt of Illinois between 1913 and 1922 was one and one-half-fold, but during this period the state and local debt of the other states doubled. During these years, as the result of the war-time flow of workers from other states into Illinois factories, the population of the state increased so rapidly that despite the 145.2% increase of the actual net debt, the per capita net debt increased only 118.2%, from $14.98 to $32.68, and the ranking of Illinois by per capita net debt rose from thirteenth to tenth. The increase of wealth in Illinois during these years was not so rapid as the increase in population, so that the ratio of debt to wealth did not make as favorable a showing in 1922 as in

[1] Minus sinking funds.

Table 10: Combined State and Local Indebtedness, 1913, 1922, 1925

(Source: Data from U. S. Bureau of the Census, Computed by National Industrial Conference Board)

State	Bonded Debt Less Sinking Fund (In thousands)			Estimated Wealth (In thousands)		Per Capita Debt			Ratio of Debt to Wealth		Ranking on Per Capita Basis			Rank by Ratio of Debt to Wealth	
	1913	1922	1925	1912	1922	1913	1922	1925	1912-1913	1922	1913–1922		1925	1912–1913	1922
Alabama	$36,532	$57,314	$94,263	$2,015,430	$3,002,043	$16.55	$23.91	$37.72	.0181	.0191	17	5	8	34	21
Arizona	9,254	39,329	51,327	456,726	1,314,291	37.43	108.97	119.92	.0203	.0299	39	45	41	36	39
Arkansas	8,130	9,900	19,395	1,721,900	2,599,617	4.98	5.53	10.32	.0047	.0038	1	1	1	4	1
California	135,266	467,817	733,587	8,536,485	15,031,734	49.65	128.41	175.50	.0158	.0311	46	46	47	30	40
Colorado	20,920	77,778	130,204	2,315,310	3,229,412	24.74	79.80	125.20	.0090	.0241	28	34	43	5	30
Connecticut	42,799	85,767	103,648	2,369,723	5,286,445	35.59	59.75	65.93	.0181	.0162	38	24	21	33	17
Delaware	6,610	22,150	29,680	304,918	625,765	31.60	97.01	124.71	.0217	.0354	37	44	42	38	46
Florida	13,527	86,204	234,818	936,885	2,440,491	16.42	84.18	185.77	.0144	.0353	16	36	48	28	45
Georgia	30,084	56,622	57,062	2,163,033	3,896,759	11.13	19.07	18.40	.0137	.0145	6	3	3	24	13
Idaho	8,603	42,220	48,029	578,999	1,533,941	23.85	92.49	94.55	.0149	.0275	27	43	34	27	34
Illinois	**88,653**	**217,610**	**407,216**	**15,500,164**	**22,232,794**	**14.98**	**32.68**	**57.42**	**.0057**	**.0098**	**13**	**10**	**14**	**5**	**6**
Indiana	58,550	138,877	186,044	5,358,951	8,829,726	21.09	46.55	60.11	.0190	.0157	21	15	18	19	16
Iowa	23,626	112,170	158,271	77,708,967	10,511,682	10.34	45.95	65.40	.0031	.0107	4	14	20	2	7
Kansas	38,423	88,329	141,323	4,580,202	6,264,058	22.38	49.47	77.95	.0084	.0141	26	17	27	10	12
Kentucky	25,502	38,180	46,062	2,277,004	3,582,391	10.94	15.63	18.37	.0112	.0107	5	2	2	20	8
Louisiana	68,066	113,857	154,666	1,989,813	3,416,860	39.96	62.04	81.40	.0342	.0333	40	27	28	46	42
Maine	21,168	38,816	39,955	1,017,739	2,006,531	28.19	50.19	50.77	.0208	.0193	35	18	11	37	22
Maryland	58,425	117,063	149,580	2,235,483	3,990,730	43.40	78.81	95.88	.0261	.0293	42	33	35	43	37
Massachusetts	256,591	296,604	352,800	6,381,142	12,980,839	72.75	74.65	85.14	.0402	.0228	47	31	31	48	27
Michigan	48,936	301,716	472,764	5,297,419	11,404,861	15.82	78.47	110.36	.0092	.0265	14	32	39	16	32
Minnesota	46,263	165,750	201,079	5,432,278	8,547,918	21.23	67.62	77.01	.0085	.0194	22	29	25	11	23

Mississippi	26,062	91,759	116,602	1,234,571	2,177,690	14.52	51.24	65.10	.0211	.0421	12	20	19	39	48
Missouri	53,697	95,645	172,009	5,727,948	9,981,409	16.13	27.86	49.37	.0094	.0096	15	6	10	12	5
Montana	11,319	50,284	56,519	1,132,758	2,223,189	26.13	84.95	84.11	.0100	.0226	30	37	29	14	21
Nebraska	27,227	77,253	99,476	3,720,813	5,320,075	22.20	58.42	72.56	.0073	.0145	25	23	23	9	14
Nevada	2,390	6,760	6,809	453,858	541,716	29.73	87.34	87.96	.0053	.0125	36	39	32	6	10
New Hampshire	9,299	12,852	14,034	657,904	1,374,135	21.39	28.83	31.05	.0141	.0094	23	7	6	26	4
New Jersey	132,752	298,886	458,585	6,011,310	11,794,189	48.42	91.03	127.38	.0221	.0253	45	41	44	40	31
New Mexico	6,340	15,133	19,886	495,118	851,836	18.75	41.06	51.79	.0128	.0178	19	12	12	22	20
New York	986,120	1,536,130	1,734,193	25,664,002	37,035,262	103.43	144.28	155.37	.0384	.0415	48	48	46	47	47
North Carolina	31,071	159,940	327,157	1,685,408	4,543,110	13.38	60.42	116.34	.0184	.0352	9	26	40	35	44
North Dakota	4,817	20,386	14,167	2,112,939	2,467,772	8.03	30.83	22.10	.0023	.0083	3	9	4	1	2
Ohio	210,555	545,704	659,954	2,123,301	18,489,552	41.33	91.50	102.00	.0231	.0295	41	42	36	41	38
Oklahoma	37,307	109,274	124,794	3,117,546	3,993,524	20.96	51.92	54.40	.0120	.0274	20	21	13	21	33
Oregon	19,398	106,607	128,647	2,057,439	3,419,459	27.35	131.77	149.07	.0194	.0312	32	47	45	17	41
Pennsylvania	223,464	508,176	731,741	16,225,953	28,833,745	27.89	56.57	77.22	.0138	.0176	33	22	26	25	19
Rhode Island	26,679	41,202	51,922	986,596	1,924,326	47.38	66.42	76.47	.0270	.0214	44	28	24	44	25
South Carolina	18,921	50,562	67,143	1,261,048	2,404,845	12.04	29.28	37.22	.0150	.0210	8	8	7	29	24
South Dakota	6,928	38,843	40,525	1,327,215	2,925,968	11.52	60.00	59.51	.0052	.0133	7	25	17	7	11
Tennessee	55,653	119,880	145,623	1,883,698	4,228,251	24.90	50.59	59.49	.0296	.0284	29	19	16	45	36
Texas	77,023	339,708	470,235	6,379,592	9,850,888	18.56	70.27	90.22	.0121	.0345	18	30	33	23	43
Utah	10,771	42,199	42,629	796,300	1,535,477	27.03	90.11	84.58	.0135	.0275	31	40	30	32	35
Vermont	5,128	7,085	8,879	504,818	842,040	14.45	20.10	25.15	.0102	.0084	11	4	5	18	3
Virginia	59,803	113,589	143,917	2,402,412	4,891,570	27.90	48.00	57.89	.0249	.0232	34	16	15	42	28
Washington	54,800	121,473	157,100	3,183,058	5,122,405	45.18	86.37	104.04	.0172	.0237	43	38	37	31	29
West Virginia	8,684	67,725	109,293	2,427,930	4,677,919	6.67	44.74	66.72	.0036	.0145	2	13	22	3	15
Wisconsin	32,899	96,097	126,338	4,327,770	7,866,081	13.53	35.68	44.39	.0076	.0122	10	11	9	8	9
Wyoming	3,513	16,816	25,247	355,732	976,239	21.69	81.78	110.25	.0099	.0172	24	35	38	13	18
All States	$3,188,548	$7,264,041	$9,865,197	$186,607,664	$313,021,560	$33.16	$66.76	$85.89	.0171	.0232					

1913, and the ranking of Illinois by this criterion fell from fifth to sixth.

The rapid expansion of the state debt coupled with the not inconsiderable increase in local indebtedness since 1922, has affected the ranking of Illinois by the relative burden of its public debt. The combined total of net debt of Illinois in 1925, which amounted to $407,216,000, represented a per capita debt of $57.42. This was far below the figure of $185.77 for Florida and that of $175.50 for California, and well below the average of $85.89 for the whole country, though not much less than the median state which was Rhode Island, with a per capita debt of $76.47. In the ranking of the states by their per capita net debt in 1925 Illinois occupied the fourteenth place.

Illinois is a rich state, and the richer states can safely incur proportionately heavier indebtedness than the poor states. The heavy borrowings of Illinois during the past few years, and the obligations already voted which will be issued during the next few years need give no cause for alarm. The funded debt of Illinois is still light, and where new non-recurring construction is urgently needed, it can safely be financed by borrowing.

CHAPTER IV

ILLINOIS TAX SYSTEM

UNDER the American system of government, powers of taxation vested in state legislatures are definitely limited by the checks and restrictions embodied in state constitutions. The fiscal provisions of the Illinois Constitution are found, with few exceptions, in Art. IX.[1] Although the Illinois Constitution has undergone numerous modifications since its adoption in 1870, Art. IX still retains essentially its original form.

Constitutional Provisions Applying to State Finances

In the first Section of Art. IX the principles are firmly established, that taxes must be equal and proportional, i. e., that taxes levied by the General Assembly must be uniform, and that every person and corporation must pay taxes in proportion to the value of the property they own. In addition to the power to tax general property, the Assembly has been granted the power to tax specific objects and subjects, namely, peddlers, auctioneers, brokers, hawkers, merchants, commission merchants, showmen, jugglers, inn-keepers, grocers, liquor dealers, toll-bridges, ferries, insurance companies, telegraph and express companies, venders of patents, and persons or corporations owning or using franchises or privileges. It is also provided that any such specific tax must be "uniform as to the class upon which it operates." This list, however, does not exhaust the possibilities of further taxation of a special character, since the Constitution provides in Sec. 2 of Art. IX that "the specification of the objects and subjects of taxation shall not deprive the General Assembly of the power to require other subjects or objects to

[1] The principal exceptions are those relating to the personal property of railroads (Article XI, Sec. 10) and an amendment relating to the special taxation of the Illinois Central Railroad, which is discussed below.

be taxed, in such manner as may be consistent with the principles of taxation fixed in this constitution."

Judicial Interpretation of the Rule of Uniformity

The rule of uniformity has been rigidly construed by the courts, but the attitude of the judiciary in interpreting these provisions of the Constitution has always been tempered by reason. For example, the courts have held that the legislature may provide different methods of determining capital stock for various classes of corporations,[1] and that it may allow certain credits and deductions in the assessment of personal property without according the same privilege to owners of real property,[2] as long as the provisions enacted into law operate uniformly within the class to which they apply. On the other hand, the rule of uniformity was held by the courts to have been violated in assessing one class of property at a higher rate than other property,[3] or in exempting the property of certain corporations.[4]

Sec. 1 of Art. IX of the Constitution vests the power of evaluating property for purposes of taxation in the persons to be elected or appointed in such manner as the General Assembly shall direct, "and not otherwise," and the courts have held that such power cannot be exercised by executive, legislative or judicial departments of government, but solely by the persons selected as the legislature directs.[5]

It is to be observed that the Constitution does not provide any specific basis for determining the value of property for the purpose of taxation but leaves this matter to the General Assembly. "Value," therefore, has been defined in the General Revenue Act as "fair cash value" in the case of personal property and as the "price that it would bring at a fair voluntary sale in the course of trade" in the case of real property.[6] The principle has been established, furthermore, that it is not within the power of the legislature to provide varying meth-

[1] *Sterling Gas Co. v. Highby*, 134 Ill. 587; *Coal R. Co. v. Finlen*, 124 Ill. 666.

[2] *Edwards v. People*, 99 Ill. 340.

[3] *Darling v. Gun*, 50 Ill. 24; *People's Gas Light Co. v. Stuckart*, 286 Ill. 164.

[4] Other than the exemptions contained in Sec. 3 discussed later in this chapter, *Loan & Homestead Association v. Keith*, 153 Ill. 609.

[5] *Republic Life Ins. Co. v. Pollak*, 75 Ill. 292.

[6] Revenue Act of 1898, Sec. 18.

ods of valuation for different classes of property as a general proposition,[1] although certain exceptions are recognized in given instances. For taxation purposes, fifty per cent of the value as above determined is taken as the basis.[2]

Exemptions from Taxation

Certain rigidly circumscribed departures from the principle of uniformity are provided for in Sec. 3 of Art. IX of the Illinois Constitution which are actuated by considerations of high public interest. The property of state and local governments (both real and personal) and other property used exclusively for agricultural and horticultural societies, and for school, religious, cemetery and charitable purposes *may* be exempted from taxation. While the language in this Section is broad and fairly liberal, there have been inserted two requirements which act as a brake in applying this measure to concrete cases; first, the property in question must be used exclusively for the above mentioned purposes and second, the exemption must come under a general law enacted by the General Assembly. This makes it clear that the Constitution itself does not exempt property from taxation but merely authorizes the legislature to do so in certain cases. Accordingly, the General Revenue Act must be consulted for a specific description of the character of the property to which the exemption privilege is to be accorded.[3]

Other constitutional provisions of a general character which have a bearing on state finance may be mentioned. Sections 4 and 5 of Art. IX authorize the county collection officer to sell real estate upon which taxes and assessments have not been paid, but they also provide for right of redemption in favor of owners or persons interested therein for a period of not less than two years from the time of the public sale. Sec. 6 prohibits the General Assembly from releasing any local government from its proportionate share of state taxes levied or from making any commutation whatever of that share. In Sec. 7, the framers of the Constitution eliminated the possibility of tax "farming" by requiring that all

[1] *People v. Ill. Cent. R. Co.*, 273 Ill. 220, 251.

[2] Revenue Act of 1898, Sec. 18, as amended by Laws of 1919, p. 727.

[3] For further discussion of the factor of exemption, see below, p. 176.

taxes levied for state purposes shall be paid directly into the state treasury; the principal objects of the provision were to concentrate state funds in the hands of an officer of the state and to prevent appropriation of state taxes to improvements in any given locality. Mandatory taxation of municipal corporations by the General Assembly for corporate purposes is prohibited in Sec. 10, except that all taxable property within the limits of municipal corporations shall be taxed uniformly with respect to persons and property within the jurisdiction of the body imposing the same for the payment of debts contracted under authority of law. As construed by the courts, the state cannot, for example, compel a city to issue bonds for a park against its will,[1] or require a city to pay officers appointed by the state (except if there is an insurrection or if the city fails to furnish sufficient security to life and property).[2] On the other hand, this Section does not prohibit the state from imposing a local tax upon a municipal corporation if required for the general good of the state or if public safety demands it, because such taxes are not merely and solely for corporate purposes.[3] A further safeguard has been inserted, namely, that private property cannot be taken or sold for the payment of the corporate debts of a municipal corporation.

Two constitutional provisions relating to public finance not found under Art. IX concern the taxation of railroads. In Art. XI, Sec. 10, it is stipulated that the rolling stock and all other movable property belonging to any railroad in the state should be considered personal property, subject to the same conditions of execution and sale as property of individuals, and it is further stipulated that the General Assembly may not pass any law exempting such property from execution or sale. In an amendment to the Constitution passed in 1908 it is provided that the charter agreement between the Illinois Central Railroad Company and the State of Illinois dated February 10, 1851, whereby the former pays annually to the latter 7% of its gross earnings as a return for lands and special privileges granted and in lieu of all other taxes, can never be released, suspended, modified, altered or in any

[1] *People v. Chicago*, 51 Ill. 58. [2] *Wider v. East St. Louis*, 55 Ill. 133.

[3] *Chicago, M. & St. P. R. Co. v. Lake County*, 287 Ill. 337, 345; and *St. Hedwig Indus. School v. Cook County*, 289 Ill. 432, 440.

manner diminished or impaired by legislative or other authority. This arrangement applies only to the *charter* lines of the Illinois Central Railroad Company. The moneys derived from this source must, after payment of the state debt, be appropriated and set apart solely for the ordinary expenses of the state government.

Provisions for State Indebtedness

As to the incurring of debts, the Illinois legislature is bound by restrictions more or less similar to those found in the organic laws of neighboring states. Art. IV, Sec. 18 of the Constitution permits the legislature to contract debts up to a maximum of $250,000 to cover *casual* deficits or failures in revenues, except when repelling invasion, suppressing insurrection or defending the state in war, in which cases, it may be presumed, no constitutional limitation is applicable. It is provided, however, that the maximum of $250,000 may be exceeded if a law authorizing the same has been submitted to the people at a general election and has received a majority of the votes cast for members of the General Assembly at such election. Sufficient revenue must be raised, however, to pay interest annually thereon, and the law levying the tax must be submitted to the people together with the law authorizing the debt to be contracted. Revenue legislation, when once enacted for this purpose, can not be repealed until the time of extinction of the debt. It is to be noted that the Constitution specifies no definite period in which the debt of the state must be retired, nor does it make compulsory an annual levy for its amortization.

In 1918, the electorate of Illinois approved an amendment to the Constitution authorizing a state bond issue of $20,000,000 for constructing a deep waterway canal and of $60,000,000 for roads. In 1922, $55,000,000 were voted for a bonus to soldiers and sailors who served during the World War. In 1924, an additional $100,000,000 was voted for highways.

The Constitution contains the usual provision forbidding the state government to assume responsibility for debts of local governments and persons in their individual and corporate capacities. It is stipulated that "the state shall never

pay, assume or become responsible for the debts or liabilities of, or in any manner give, loan or extend its credit to, or in aid of, any public or other corporation, association or individual.[1]

Constitutional Provisions Applying to Local Finances

Three important sections of the Constitution deal with the problem of local finance. Sec. 8 of Art. IX sets the maximum tax which county governments may levy for their own purposes at 75 cents per $100 of valuation unless otherwise authorized by a vote of the people of the county. This is the only limitation on tax rates set by the Constitution, but other limitations are provided in the General Revenue Act. Where the county is under township organization, the town may levy a tax for town purposes in addition to the county tax.[2]

In Sec. 9 it is provided that the General Assembly may vest the corporate authorities of cities, towns and villages with the power to make local improvements by special assessment or by special taxation of contiguous property or otherwise, in addition to the power to assess and collect taxes for all other corporate purposes.[3] This broad power has been not infrequently abused by the legislature and has been in no small measure responsible for the creation of 15,560 separate taxing bodies in the State of Illinois, as compared with only 2,969 in the State of Indiana.

Finally, Sec. 12 prohibits local governments (counties, cities, townships, school districts or municipal corporations) to incur any indebtedness exceeding in the aggregate five per cent of the assessed value of taxable property therein, as ascertained by the last assessment for state and county taxes previous to the incurring of such indebtedness.[4] Furthermore, before or at the time the indebtedness is incurred, local governments must provide for a direct annual tax sufficient to pay interest thereon and to discharge the principal within

[1] Art. IV, Sec. 20. [2] *Wright v. Wabash, etc., R. R. Co.*, 120 Ill. 541.

[3] Such taxes being uniform in respect to persons and property within the jurisdiction of the body imposing the same.

[4] Value of taxable property refers not to actual but to assessed value. *City of Chicago v. Fishburn*, 189 Ill. 367, 377.

twenty years from the time of contracting the same. The wording of this provision is sufficiently comprehensive to embrace within the 5% limitation bonded indebtedness for water works and other enterprises,[1] the aggregate of sums involved in municipal contracts and leases running over a period of time,[2] and the like, but its efficacy has been seriously impaired by court decisions which have held that the constitutional limitation upon indebtedness applies to each municipal corporation singly and that if one municipal corporation embraces the same territory as the others, *each* may contract indebtedness to the constitutional limit.[3] Thus, the combined debt limitation of public authorities in any given area lying within the jurisdiction of six separate taxing bodies—a situation which exists in Chicago—would be not 5% of the value of the taxable property but six times 5%, or 30%. If a municipal corporation therefore finds its debt approaching the maximum permitted by the Constitution, it can continue to borrow additional sums through the creation by the legislature of new taxing districts within the municipality in question thus overcoming the constitutional obstacle.[4]

Finally, Art. VIII, Sec. 3, enjoins the state and local governments from making any appropriation to or payments from any public fund in aid of any church or sectarian purpose, or to any educational, literary or scientific institution controlled by any church or sectarian denomination. Furthermore, no grant or donation of land, money or other personal property can ever be made by the state or any of its political subdivisions to any church or for any sectarian purpose.

[1] *City of Chicago v. McDonald*, 176 Ill. 418; *Evans v. Holman*, 244 Ill. 596.

[2] *City of St. Louis v. Gas Co.*, 98 Ill. 415; *R. R. Co. v. People*, 200 Ill. 541.

[3] *People v. Honeywell*, 258 Ill. 319.

[4] An amendment to the Constitution, adopted by a vote of the people on November 4, 1890, granted permission to the City of Chicago to issue interest-bearing bonds to a maximum of five million dollars, with an interest rate not exceeding 5% per annum, in aid of the World's Columbian Exposition held in that city. This Section (no. 13) under Art. IX, has no specific bearing on the general problems herein discussed and is mentioned here merely for the sake of completeness. For similar reasons, Sec. 11, which provides that no person who is in default as custodian or collector of funds or property belonging to a municipal corporation can hold office thereunder, and that the fees, salary or compensation of any municipal officer who is elected or appointed for a definite term can not be increased or diminished during such term, is not discussed in the text.

Summary of the Illinois Revenue System

The so-called general property tax stands foremost in the Illinois tax system in the importance of the revenue which it produces, as well as in its historical position. It is an important element in the finances of the state government and the fiscal mainstay of all local governmental divisions. Apart from a slight participation of the counties in the inheritance tax, the only other tax revenue of local governments is the poll tax.

The state revenue from the general property tax is, however, supplemented by tax revenue from other sources, namely, (1) corporation franchise taxes, (2) Illinois Central Railroad gross income tax, (3) taxes upon insurance companies, (4) the inheritance tax, (5) the motor vehicle license charge and the gasoline tax.

While placing the emphasis on these main sources of revenue one should not ignore the existence of certain miscellaneous taxes and license fees which make relatively negligible contributions to the public funds.

The General Property Tax

Property assessed under the general revenue act consists of (1) all real and personal property[1] in the state; (2) all money, credits, bonds or stocks and other investments, the shares of stock of incorporated companies and associations, and all other personal property, including property in transit to or from the state, used, held, owned or controlled by persons residing in the state; (3) the shares of capital stock of banks and banking companies doing business in the state; and (4) the capital stock of companies and associations incorporated under the laws of the state. An amendment to the law in 1905 excepted companies and associations organized for purely manufacturing and mercantile purposes, or for either of these purposes, for the mining and sale of coal, for printing, for the publishing of newspapers or for the improving and breeding of stock. Although this exemption was declared

[1] Unless otherwise specified by statute, personalty is conceded a situs at the domicile of the owner; intangibles owned by a non-resident but in the hands of a resident agent are taxable. *Ellis v. People*, 199 Ill. 548.

unconstitutional,[1] and the capital stock of these organizations is now taxable, it can not be assessed by the State Tax Commission.[2]

The exemptions allowed are grouped in nine classes. The first, second and third classes include school property and lands, property used exclusively for religious purposes and for orphanages and graveyards. The fourth and fifth classes cover unentered government lands, federal lands and structures, and state property. The sixth and ninth classes specify the types of property owned by local governments which are exempted. Class seven covers the property of charitable organizations, class eight the property of fire-fighting organizations, and class nine the property of societies for agricultural, horticultural, mechanical and philosophical purposes.

State and local tax levies are based on a 50% assessment valuation. The law directs, however, that in drawing up the assessment roll, the full values of both realty and of personalty are to be listed. In the case of realty, it is provided that the price that the property would bring "at a fair, voluntary sale" shall be the basis of the assessment estimate. In the case of personalty, including capital stock, "fair cash value" is the guiding factor.[3]

The state and local governments make their levies upon 50% of the assessment figures so obtained. The law provides for four state levies: (1) for general state purposes; (2) for interest purposes; (3) for state school purposes, and (4) for other special purposes. For the fiscal year ended in 1925, the state made the following levies (per $100 of assessed valuation): (1) for general state purposes, 45 cents; (2) for principal of and interest on the soldiers' bonus debt,[4] 11 cents; (3) for state school purposes, 19⅔ cents, and (4) for the University of Illinois fund, 6⅔ cents and for Illinois Waterway purposes, 2⅔ cents. This made a total levy for the year of 85 cents per $100 of assessed valuation. In 1922

[1] *Consolidated Coal Co. v. Miller*, 236 Ill. 149; *People (ex rel.) v. National Box Co.*, 248 Ill. 141; *People v. Federal Security Co.*, 255 Ill. 561.

[2] See below, pp. 141–144.

[3] Further consideration of the assessment and taxation of realty and personalty are reserved to Chapters V and VI of this volume.

[4] See above, p. 11.

the combined state rate was 45 cents. In 1923 it was 50 cents and in 1924, 65 cents.

Over ninety-five per cent of the total tax revenue of the Illinois local governments is derived from the general property tax. In its annual session held in September, the county board of each county determines the amount of its levy for all county purposes. The limitations as to the form and rate of this levy have been discussed in a preceding chapter.[1] On or before the second Tuesday of August, the proper authorities of the towns, cities and other civil divisions certify to the county clerk the amounts they require to be raised by taxation. The county clerk of each county is charged with the duty of extending the state and local taxes levied on the equalized value of the property in the county. It is also the duty of the county clerk to apply the provisions of the Juul Law, if he finds that the levy upon any piece of property exceeds the limitations set by this law,[2] and to scale down the rates of the respective levies until the aggregate levy conforms with the law.

Poll Tax

The only poll taxes in effect in Illinois are those collected in towns for road purposes. They vary from $1 to a maximum of $3 and are levied on all able-bodied citizens of towns between the ages of 21 and 50 years, except paupers, idiots and lunatics. The revenue from this source is nominal and amounted to only $64,000 in the fiscal year ended in 1922.

Annual Franchise Tax on Corporations

An annual license tax amounting to 5 cents per $100 (i. e., one-half mill) of the value of the issued[3] capital stock is imposed upon all corporations which have property located in or which transact business in the State of Illinois, except insurance companies. The minimum tax payable is $10. If a corporation has no tangible property or does no business in the state but has an office there, the tax is computed on

[1] See above, p. 33.

[2] See above, pp. 33–34.

[3] Until 1927 the tax was based on the *authorized* capital stock. In *Roberts Schafer & Company* and *O'Gara Coal Company* cases, the courts held that this provision was unconstitutional. The 1927 legislature thereupon changed the basis of the tax to the *issued* capital stock.

the basis of capital stock as follows: on $50,000 or less, $10; $50,000 to $200,000, $15; $200,000 to $500,000, $20; $500,000 to $1,000,000, $50; $1,000,000 to $10,000,000, $200; $10,000,000 to $20,000,000, $500; and more than $20,000,000, $1,000. In the case of a corporation doing business within and without the state, the tax is levied on the proportion of the authorized capital stock represented by business transacted and tangible property owned in the state. No-par stock is valued at the amount of consideration received for it.

In addition to the annual tax based on issued capital stock, miscellaneous fees are collected from corporations as follows: articles of incorporation of a company organized for profit, one-twentieth of 1% of capital stock, with a minimum tax of $20, and a similar fee for any subsequent increase in capital or for extension of corporate existence or for merger of consolidation; incorporation of company not for profit, $10; filing annual reports, $20; certificate of amendment, $20; change of location, $5; recording or furnishing copy of railroad agreements, $25; filing statements and certificates, $1. State banks pay an annual examination fee of $25, plus $2 per $1,000 of assets. Foreign building and loan associations are required to pay $50 upon filing application, as well as an annual license fee of $25. Trust companies pay a fee of $30 upon original application, $2 for certificate of authority and $10 with annual statements.

Illinois Central Railroad Gross Income Tax

The Illinois Central Railroad Company pays a tax of 7% of its gross earnings to the state government, which is in lieu of all other taxes (both state and local), as stipulated in its charter of incorporation dated Feb. 10, 1851. As stated above, this agreement has been made perpetual by incorporation of its terms in the Constitution of the state. It applies only to the charter lines, other portions of the system being subject to the same taxes as all other property.

Tax on Insurance Companies

For the privilege of doing business in the state, all *foreign* (i.e., non-resident) life insurance companies are subject to an annual state tax of 2% of their gross premiums collected in

the state. In arriving at the gross premiums for taxation purposes, the Illinois law is fairly liberal. Returned premiums on cancelled policies, amounts paid for reinsurance of risks within the state to companies in the state and dividends payable to policyholders are deductible from taxable gross premiums. All fire insurance companies, whether domestic or foreign, are required to pay a tax of one-fourth of one per cent of the gross receipts from business done in the state, for the maintenance of the state fire marshal's office. Until 1927 foreign fire insurance companies were subject, in addition, to taxes[1] locally levied on the net receipts of the agency, taxable as personal property in the city, town or village where the office was located and on gross receipts, taxable for the benefit of organized fire departments, to a maximum of 2%. The latter amount was deductible from the annual tax which all foreign insurance companies were required to pay to the state government.

Two peculiarities may be noted in the taxation of insurance companies in Illinois. First, there is a specific discrimination against foreign companies, since the annual state tax on gross premiums applies to them only, while domestic insurance companies are exempt. There are few other states of importance that pursue a similar policy, Connecticut and Delaware[2] being outstanding examples. Second, until recently non-resident fire insurance companies were subjected to local taxation of a special character. Twelve other states permit local governments to tax insurance companies in a special manner, the proceeds of which are used locally.

Inheritance Tax

Transfers of property by will or by the intestate laws of the state, whether by resident or non-resident decedents, are subject to an inheritance tax on the clear market value of the property. In the case of non-residents, the tax applies only to the property within the state or subject to its jurisdiction. Property devised or transferred for religious, charitable or

[1] Declared unconstitutional in *Hanover Fire Insurance Company v. Carr*, 47 Sup. Ct. Rep., 179.

[2] See National Industrial Conference Board, "The Fiscal Problem in Delaware," 1927, p. 74.

educational purposes is exempt from the tax. The inheritance tax law is administered by the Attorney General.

Three classes are established under the law, with varying rates and exemptions for each. In the first group are included father, mother, child, wife, husband, brother, sister, widow of a son and husband of a daughter; in the second group, aunt, uncle, niece, nephew or their lineal descendants; and in the third group, all other relatives and strangers. The exemption to those in the first group, other than brother or sister, is $20,000; brother or sister enjoy an exemption of $10,000. Those in the second group receive an exemption of $500, and those in the third group, only $100. The rates in the first group, applying to the excess above the exemption, vary from 2% on the first $50,000 of the clear market value to 14% on inheritances amounting to more than $500,000; in the second group, the rate begins at 6% on the first $20,000, rising to 16% on over $170,000; and in the third group, it commences with 10% on the first $20,000 and reaches the maximum of 30% on over $250,000.

It is to be noted that, although the exemptions in the inheritance tax law are fairly liberal, the minimum and maximum rates of taxation are high,[1] and the progression in the rates is rendered steep by limitation of the number of groups to which varying rates apply. A rather unusual feature in the inheritance tax statute of Illinois is the granting of a preferred classification to brother and sister, on a par with direct descendants and spouses. Only six other states of the forty-five states having an inheritance tax law follow a like course in this respect.[2]

With regard to the taxation of personal property of non-resident decedents, which has given rise to great irritation in recent years, the policy pursued by Illinois is on the whole fairly equitable. Stock of foreign corporations doing business or owning property in the state, which is owned by a non-resident decedent, is not taxed; only stock of domestic corporations is subject to the inheritance tax. Registered or unregistered bonds of a domestic corporation without the

[1] See discussion on these rates in William J. Shultz, "The Taxation of Inheritance," 1926, p. 131.

[2] Maryland, Michigan, Mississippi, Nebraska, Rhode Island and Wyoming.

state or of foreign corporations doing business or owning property in the state, stocks of a foreign corporation having a transfer office in the state, unsecured notes of a resident, and bonds and mortgages secured by domestic real estate are all free from inheritance taxation, when owned by a non-resident decedent. On the other hand, cash on deposit, goods and chattels, capital invested in business in the state and securities located in the state, in the possession of a non-resident decedent, are subject to the inheritance tax. Federal estate tax paid is deductible from the gross value of estate, in addition to debts and administration expenses, and full exemptions as provided in the law are allowed. Court proceedings, which are required in some states and which add considerably to the burden on estates, are not required in Illinois.

Highway Revenue

Motor vehicles are subject to an annual license tax in Illinois, as elsewhere in this country. In Illinois the proceeds revert entirely to the state government and are used *exclusively* for road purposes. For passenger cars, the basis of the annual license tax is horsepower; for commercial vehicles, gross weight (including weight of vehicle and maximum load); for motorcycles, a flat rate per vehicle. The tax for passenger cars is $8, if the horsepower is 25 or less; $12, if horsepower ranges between 26 and 35; $20, if it ranges between 36 and 50; and $25, if it exceeds 50. In the case of commercial vehicles, the annual tax is $12, if the gross weight is 5,000 lbs. or less; $22.50, if it ranges between 5,000 and 12,000 lbs.; $75, if it ranges between 12,000 and 16,000 lbs.; $100 if it ranges between 16,000 and 20,000 lbs.; and $150 if it exceeds 20,000 lbs. Electrically driven motor vehicles are subject to a flat tax of $12; motorcycles, $4; and tractor, traction engines or similar vehicles used for hauling, $25. Illinois is one of the twenty-five states[1] that discriminate between common carrier trucks and other motor-driven

[1] The other twenty-four being: Arizona, Arkansas, California, Idaho, Iowa, Kansas, Maryland, Michigan, Minnesota, Mississippi, Montana, Nevada, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, South Carolina, South Dakota, Utah, Virginia, Washington and West Virginia.

vehicles. In addition to the above license tax, trucks used as common carriers are subject to a special tax of $1 per 100 lbs. of gross weight.

Until 1927 Illinois was one of the four states in the Union that had not as yet adopted a tax on gasoline. The other three states were Massachusetts, New Jersey and New York. In 1927 both Illinois and New Jersey provided for gasoline taxes; the rate of the Illinois tax is two cents per gallon. Half of the revenue of the Illinois gasoline tax must be distributed to the counties, which can use it either to retire highway bonds or for road construction. This tax, in the forty-four states employing it up to 1927, afforded a total revenue of $80 millions in the calendar year 1924, $146 millions in 1925 and $188 millions in 1926. The average gasoline tax per motor vehicle in 1925 was $9.22; about $135 millions of the total collected was available for state, county and local roads.

A study of the average license taxes paid per passenger car and motor truck in the first half of 1925 indicates that the average for Illinois was below that for the twenty-seven states which segregate the revenues from these two types of motor vehicle and thus afford valid comparisons. The same conclusion obtains with respect to common-carrier trucks.

In addition to the foregoing taxes, there are found miscellaneous and license fees in Illinois which are not enumerated here because of their relative unimportance from the revenue standpoint.

CHAPTER V

STATE AND LOCAL TAX REVENUES

STATE and local expenditures in the United States have grown rapidly in recent years. The taxes levied and collected by the state and local governments have necessarily undergone a parallel expansion. In 1913 the state and local taxes collected totaled $1,526 millions. In 1923, $4,202 millions were collected. In 1926 the figure was $5,348 millions.[1] It is evident that the growth of governmental expenditures in Illinois, as noted in Chapter I of this study, and the corresponding increase in tax collection to be studied in detail in this Chapter are not phenomena peculiar to that particular state.

[1] National Industrial Conference Board, "Cost of Government in the United States, 1925–1926," 1927, Table 28.

TABLE 11: ILLINOIS STATE TAX REVEN

(Source: Data from Illinois State Auditor's Reports and U. S. Bureau

State Taxes	Fiscal Year					
	September 30, 1913	September 30, 1914	September 30, 1915	September 30, 1916	Sepember 30, 1917	September 30, 1918
General property tax	$7,523,440	$18,066,531	$10,120,849	$14,496,768	$19,312,812	$22,658,417
I.C.R.R. gross earnings tax	1,302,725	1,393,283	1,344,684	1,501,071	1,730,329	2,044,911
Insurance company taxes	..	527,124	537,960	611,600	647,506	773,226
Corporation franchise taxes	..	..	..	..	..	..
Incorporation charges	608,824	690,695	1,039,261	816,636	1,122,159	1,250,861
Non-business license taxes	..	159,182	135,221	123,933	133,779	157,850
Inheritance tax	1,053,088	2,239,052	2,820,895	1,230,488	2,108,117	1,650,339
Motor vehicle registration tax	482,866	699,535	801,126	1,197,230	1,603,492	2,749,609
Miscellaneous	..	48,600	..	..	..	..
Total	..	$23,824,002	$16,799,996	$19,977,726	$26,658,194	$31,285,213
Bonds issued	..	..	..	..	..	$7,000
Total funded debt	..	$252,500	$252,500	$242,500	$242,500	249,500
						Percentage
General property tax	..	75.9	60.2	72.5	72.5	72.4
I.C.R.R. gross earnings tax	..	5.8	8.0	7.5	6.5	6.5
Insurance company taxes	..	2.2	3.2	3.1	2.4	2.5
Corporation franchise taxes	..	2.9	6.2	4.1	4.2	4.0
Incorporation charges	..	..	..	..	..	..
Non-business license taxes	..	0.7	0.8	0.6	0.5	0.5
Inheritance tax	..	9.4	16.8	6.2	7.9	5.3
Motor vehicle registration tax	..	2.9	4.8	6.0	6.0	8.8
Miscellaneous	..	0.2	..	..	..	..
Total	..	100.0	100.0	100.0	100.0	100.0

The increase in tax revenues in Illinois and in the other states has occurred in three distinct ways: (1) through the increase in the magnitude of tax bases—property, income, inheritance transfers, and so forth—partly by reason of the change in money values of these bases caused by fluctuations in the purchasing power of the dollar, and partly by reason of the actual expansion of these bases with increasing wealth and population; (2) through increases in the rates of existing taxes; and (3) through the imposition of new taxes. The first two factors have affected both state and local finances, but the imposition of new taxes has played no part in increasing the revenues of local governments.

State Tax Collections

Because of the wide fluctuations in the state receipts from the general property tax, the upward trend of state tax collections has been exceedingly irregular during the last fourteen years, as may be seen from Table 11.

In the fiscal year 1914 the total tax revenue of the state

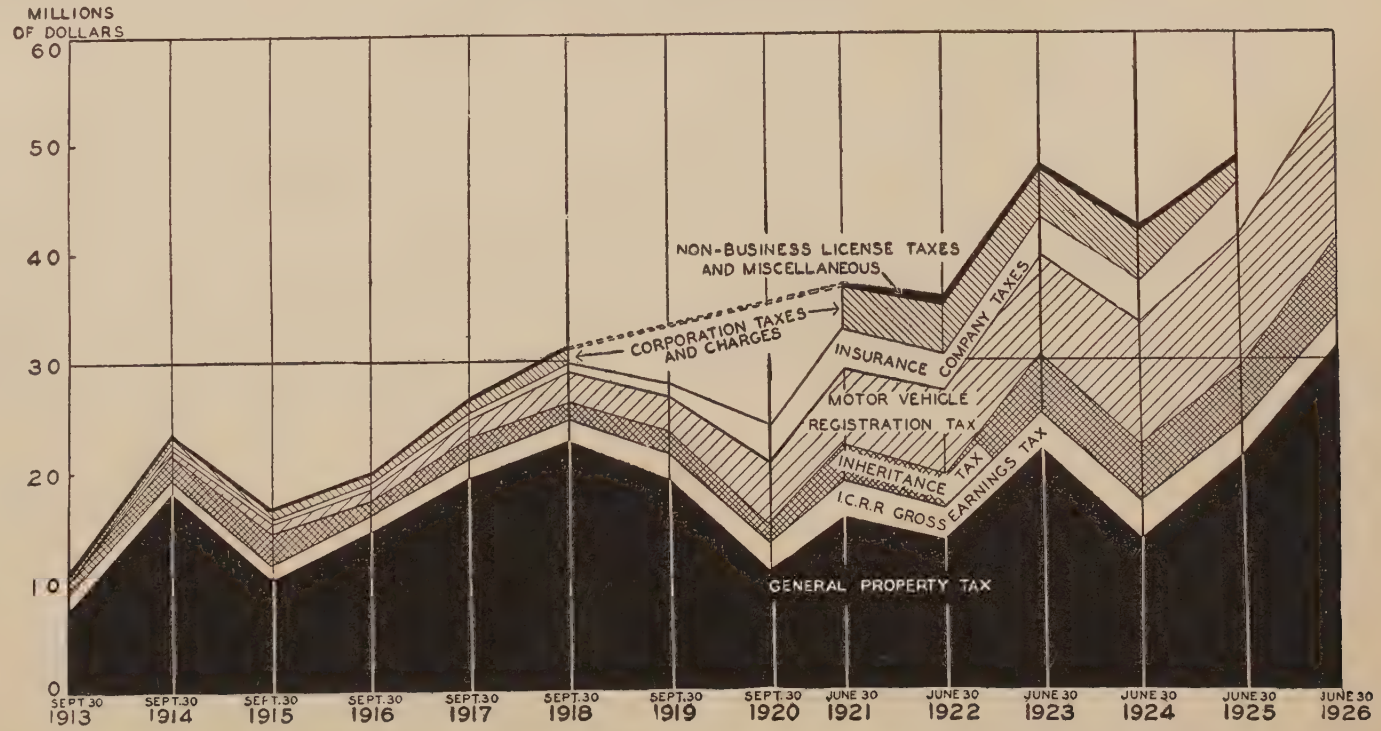
UES AND BORROWINGS, 1913 TO 1926

of the Census; Computations by National Industrial Conference Board)

Ended							
September 30, 1919	June 30, 1920	June 30, 1921	June 30, 1922	June 30, 1923	June 30, 1924	June 30, 1925	June 30, 1926
$19,214,630	$10,736,948	$15,594,551	$13,221,496	$21,512,378	$13,675,427	$20,831,689	$30,900,073
2,298,558	2,551,465	3,348,755	3,134,291	3,483,963	3,455,034	3,129,700	3,232,113
1,083,044	3,497,087	3,573,870	3,381,597	3,606,659	3,948,111	4,481,437	..
..	..	} 3,909,704	4,305,676	4,572,350	4,504,369	2,160,208	..
..	..	272,027	705,809	219,856	320,746	396,416	..
2,004,744	1,679,615	3,368,905	3,030,972	5,252,417	5,154,281	5,078,351	6,967,083
3,236,449	5,715,337	6,707,210	7,729,424	9,104,567	11,144,449	12,373,565	13,779,133
..	..	..	55,239	141,143	93,748	66,832	..
..	..	$36,775,022	$35,564,504	$47,893,333	$42,296,165	$48,518,198	..
..	..	..	$10,890,000	$12,018,650	$78,517,350	$37,750,000	$5,000,000
$249,500	$249,500	$249,500	11,139,500	23,158,150	101,355,500	136,579,500	139,326,500
Distribution							
..	..	42.4	37.2	44.9	32.4	42.9	..
..	..	9.1	8.8	7.3	8.2	6.5	..
..	..	9.7	9.5	7.5	9.3	9.2	..
..	..	} 10.6	12.1	9.5	10.6	4.5	..
..	..	0.7	2.0	0.5	0.8	0.8	..
..	..	9.2	8.5	11.0	12.2	10.5	..
..	..	18.3	21.7	19.0	26.3	25.5	..
..	..	..	0.2	0.3	0.2	0.1	..
..	..	100.0	100.0	100.0	100.0	100.0	..

Chart 4: Sources of Illinois State Tax Revenues, between September 30, 1913 and June 30, 1926

(National Industrial Conference Board)



government was $23,824,002, as compared with only $16,799,996 in the following fiscal year. Scarcely less startling were the fluctuations in state tax collections in 1922 and 1923, when they amounted to $35,564,504 and $47,893,333.

If the period as a whole, however, is considered, a very marked increase in state tax revenues is evident. The extent of this increase is shown in Table 12. In the fiscal year 1925 the yield from the general property tax was 15.3% higher than in 1914 and 105.8% above the yield in 1915. If we note that the revenue from other taxes was, with only two exceptions, greater in 1914 than in 1915, we can easily understand the cause of the decline in tax collections of the state government which occurred in the fiscal year 1915.

TABLE 12: INCREASE IN ILLINOIS STATE TAX REVENUES, FISCAL YEARS 1914 AND 1915, COMPARED WITH 1925

State Taxes	Per Cent Increase of 1925 Tax Revenues over Tax Revenues in	
	1914	1915
General property tax	15.3	105.8
I. C. R. R. gross earnings tax	124.6	132.7
Insurance company taxes	750.2	733.0
Corporation franchise taxes, Incorporation charges	212.8	107.9
Non-business license taxes	149.0	193.2
Inheritance tax	126.8	80.0
Motor vehicle registration tax	1,668.8	1,444.5
Miscellaneous	37.5	..
Total	103.7	188.8

The largest revenue producer of the Illinois state tax system is still the general property tax. A decade ago this tax yielded over seventy per cent of the revenue of the state government. Other taxes have expanded or have been increased more rapidly than the general property tax during the intervening decade, however, and at present the proportion of the total revenue of the state government derived from the general property tax is between forty and fifty per cent.

The greatest increase during the period covered in the table has occurred in the revenue from motor vehicle registration fees, which is earmarked for the highway fund. In 1914 these fees amounted to $699,535, as compared with

$13,779,133 in 1926. In twelve years, the yield from this source of revenue increased nearly twentyfold. In 1914 it represented less than three per cent of the state government's tax revenues. In 1924 and 1925 it contributed more than one-fourth of the receipts. It is to be noted, moreover, that the highway revenue in Illinois during these years was derived from registration fees alone.

Four other taxes—the inheritance tax, the 7% gross earnings tax on the Illinois Central Railroad, the 2% gross premiums tax on foreign life insurance companies and the corporation franchise tax and incorporation fees—have together accounted for between thirty and forty per cent of the state government's revenue during the past few years. The inheritance tax has come to have an annual yield in excess of $5 millions. The 7% gross earnings tax on the Illinois Central Railroad has produced from $3 millions to $3.5 millions since 1921. The gross premium tax on foreign life insurance companies, which produced only slightly over half a million dollars in 1914, yielded nearly $4.5 millions in 1925.

It is significant that while the gross total of expenditures of the state government of Illinois increased over fourfold between 1914 and 1925, tax revenues barely doubled. It should be borne in mind that a large part of the state expenditure during the last six years has been for road construction, financed from the proceeds of bond issues, and that consequently there has been no immediate pressure to raise additional tax revenue for such purposes. The more rapid increase of expenditures than of tax revenues is a situation to be found in most states though, in general, the contrast is not so sharp as in Illinois. The total of the gross expenditures of all the states amounted to $383 millions in 1913 and $1,530 millions in 1925, an increase of 299.5%; while state taxes collected in 1913 were $307 millions, as compared with $1,107 millions in 1925, an increase of 260.6%.

State Receipts and Expenditures Compared

On account of the very general use of tax warrants, the receipts of the Illinois state government are not directly comparable with its expenditures. Expenditures for state pur-

poses are almost entirely financed by tax warrants. The expenditures are then paid off by the cancellation of warrants, reported under the heading of *disbursements*. Disbursements are reported in two-year intervals, from July 1 of each even-numbered year to June 30 of the succeeding even-numbered year. Between 1922 and 1924 the unpaid balance of state tax warrants increased from $1,147,278 to $4,875,919. In the two years ended June 30, 1922 the warrants paid off amounted to $101,413,025. In the total disbursements of $101,413,104, the disbursements used directly to cover expenditures were thus a negligible quantity. In the two-year period ended in 1924, $187,462,588 of tax warrants were reported as paid off out of a total disbursement of $187,462,533, apparently an error in reporting the auditor's accounts. The receipts were for both two-year periods in excess of disbursements. In part, their surplus exceeded the increase of outstanding tax warrants. The state government, therefore, was not running on a deficit, but maintained a gross balance of $27 millions to $39 millions between 1920 and 1924, or a net balance of $26 millions to $34 millions.[1] This situation was true of all funds; their surpluses exceeded outstanding warrants. This net balance therefore was a genuine surplus, though it was only a fraction of current outstanding expenses and indebtedness as a result of the policy of financing all state enterprises by tax warrants. This policy is absolutely necessary as long as the collection of levies lags about nine months behind appropriations for each fiscal year.

Even enterprises covered by bonds are partly financed by tax warrants. This is indicated by the fact that treasury disbursements, as a whole, are about equal to paid off warrants. In the reported classification of warrants drawn on the several funds between 1922 and 1924 there appears an item of $46,923,580 for "Military and Naval" expenditures. A part of the soldiers' bonus was thus financed by tax warrants prior to the sale of the bonds.

[1] A different presentation of data in the 1926 Auditor's Report precludes a parallel comparison for the biennium, July 1, 1924 to June 30, 1926. At this latter date there was a gross surplus of $35,286,848, with $1,714,987 of warrants outstanding.

Local Taxes

The revenues of the different local governmental bodies in Illinois classified according to tax sources are shown in Table 13 for the fiscal year 1922. Comprehensive statements are not available for any later year.

Table 13: Illinois Local Tax Receipts, 1922

(Source: U. S. Bureau of the Census)

Taxing Agency	General Property Tax (Millions)	Special Assessments (Millions)	Poll Tax (Millions)	License Taxes (Millions)	Total Gross Tax Revenue (Millions)
Counties	$24,267	..	..	$238	$24,505
Incorporated places	63,983	$21,643	$20	8,583	94,229
Other civil divisions	116,222	878	44	37	117,181
Combined local tax receipts	$204,472	$22,521	$64	$8,858	$235,915

Table 11 showed that the importance of the general property tax in the state revenue system, though still great, has waned in some degree. Table 13 indicates that in the system of local governmental revenues it is still predominant. It may be noted that the cities, towns and villages of Illinois derive a considerable revenue from business and non-business license tax; in 1922 this item represented 9.1% of their total gross tax revenue for the year. The other local governmental agencies depend almost exclusively upon the general property tax. Of the $141,686,000 of tax revenue raised by Illinois local governments, other than incorporated places, in 1922, $141,367,000 or 99.8%, was derived from the general property tax levies and from special assessments.

A greater complexity and a more rapid growth of tax receipts is to be found in the larger cities than in any of the other local governmental agencies of Illinois. Classified revenue receipts of cities with populations over 30,000 are shown in Table 14 and Chart 5.

It is to be noted that in Chicago, as well as in the smaller cities, revenue from liquor licenses formed an important fraction of their total receipts in 1912. In Chicago 13.8% of the city tax revenue in that year was derived from this source. In the other cities the proportion was 15%.

At present, with the revenue from liquor licenses eliminated, the general property tax contributes about nineteen-

Table 14: Revenue Receipts of Illinois Cities, 1912 to 1925

(Source: United States Bureau of the Census)

(In thousands)

Source of Revenue	Chicago[1]				Cities[2] Having Population of 30,000 to 100,000 in 1912[3]				Cities[2] Having Population of 30,000 to 100,000		
	1912	1923	1924	1925	1912	1923	1924	1925	1923[4]	1924[4]	1925[5]
General property tax	$43,198	$108,310	$117,659	$130,933	$4,259	$10,745	$11,259	$12,128	$16,836	$18,187	$20,698
Business license taxes	1,164	3,584	3,382	3,284	105	240	250	219	397	421	399
Liquor license tax	7,283	..	..	..	776	..	..	..	..	..	..
Inheritance tax	..	99	77	97	..	..	..	..	..	..	..
Non-business license taxes	996	3,866	4,453	4,764	30	154	196	248	433	499	655
Net total	$52,641	$115,859	$125,571	$139,078	$5,170	$11,139	$11,705	$12,595	$17,666	$19,107	$21,752
Special assessments	5,807	11,705	14,339	28,074	1,026	2,404	2,170	3,035	4,367	4,204	5,403
Pension assessments	300	1,883	2,251	2,296	4	34	43	51	54	64	74
Public utilities	7,278	10,506	10,609	10,930	415	1,515	1,783	1,938	2,383	2,679	3,048
Gross total	$66,026	$139,953	$152,770	$180,378	$6,615	$15,092	$15,701	$17,619	$24,470	$26,054	$30,277
Percentage Distribution of Net Total Revenue Receipts											
General property tax	82.1	93.5	93.7	94.1	82.4	96.5	96.2	96.3	95.3	95.2	95.2
Business license taxes	2.2	3.1	2.7	2.4	2.0	2.1	2.1	1.7	2.2	2.2	1.8
Liquor license tax	13.8	..	..	..	15.0	..	..	..	..	..	..
Inheritance tax	..	0.1	0.1	0.1	..	..	..	..	..	..	..
Non-business license taxes	1.9	3.3	3.5	3.4	0.6	1.4	1.7	2.0	2.5	2.6	3.0
Net total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] Includes Cook County school district, park district and sanitary district revenues to the extent that these districts are coordinate with the city of Chicago.

[2] Includes revenues of school and park districts to the extent that these are coordinate with the cities.

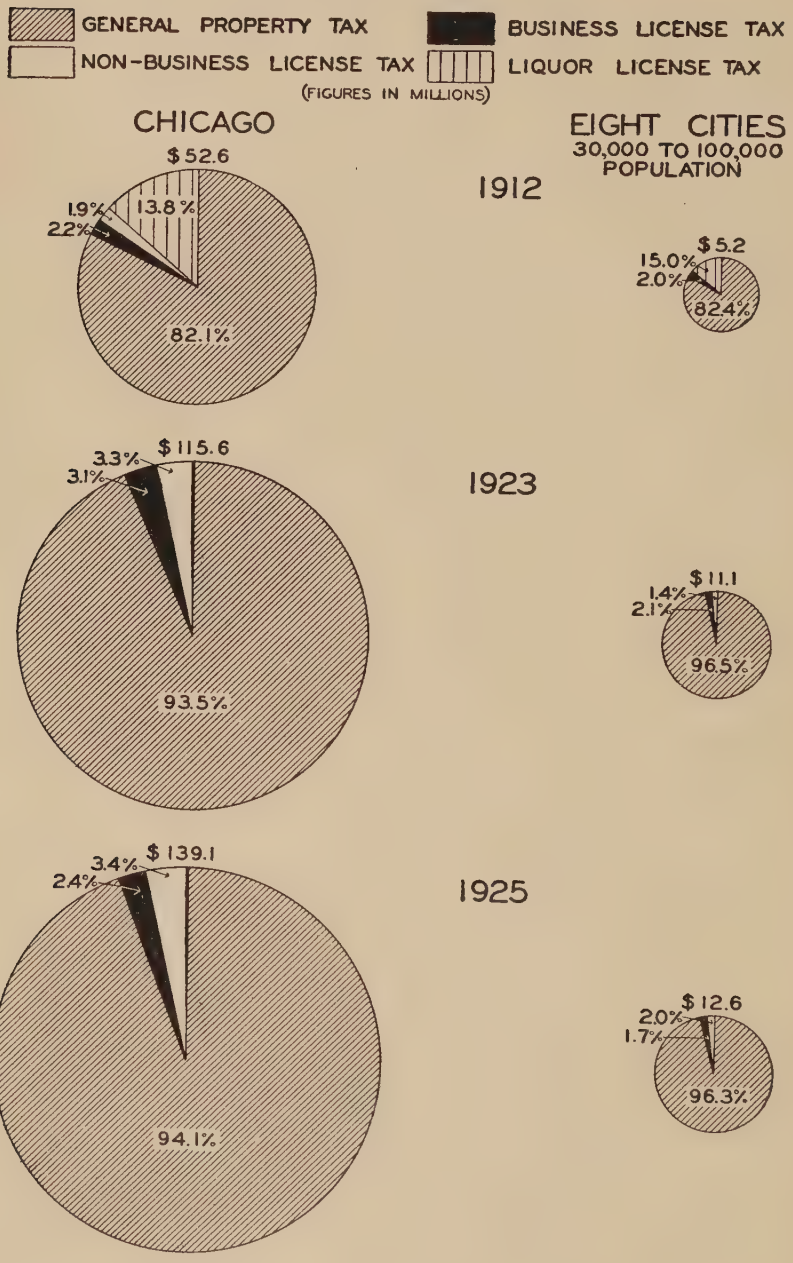
[3] Includes Peoria, East St. Louis, Springfield, Rockford, Quincy, Joliet, Decatur, Aurora.

[4] Includes Cicero, Oak Park, Evanston, Rock Island, Danville, Moline, in addition to cities included in 1912.

[5] Includes also Elgin.

Chart 5: Revenue Receipts of Illinois Cities, 1912, 1923 and 1925

(National Industrial Conference Board)



twentieths of the cities' tax revenues. In Chicago, and in the more rapidly growing communities among the smaller cities, the proportion of the property tax revenue is somewhat smaller than in the other cities, and a relatively greater revenue is derived from the business and non-business license taxes. Through the interpenetration of the city of Chicago and of Cook County, a small proportion of the county-city's revenue comes from Cook County's 2% allowance on inheritance tax collections.

General Property Tax Levies

No report is made to any state agency of the tax *levies* of the subsidiary civil divisions. Instead, these local governments make a report to the state auditor on taxes *extended*. The figure so reported includes not only the levy of the year but also all back and delinquent taxes still charged on the books.

Although the reporting schedule calls for a segregation of the delinquent taxes of previous years from the current levy, the majority of counties do not make this separation, and no attempt has been made by the State Auditor's office to enforce compliance with the requirements of the schedule. Upon request of the Conference Board, figures of counties that separately reported delinquent and current tax levies in 1924 were tabulated, and it was found that back taxes, included in the total charged, represented 3.4% thereof. For Cook County (in which the city of Chicago is located) the percentage was 5.2%, whereas in the remaining counties it was only 0.6%.

Figures for state and local property taxes extended since 1913 are shown in Table 15. Total property taxes levied for both state and local government purposes increased from $114.0 millions in 1913 to $330.4 millions in 1925, an increase of 189.8%. On a per capita basis, the figures are $19.27 and $46.58 respectively, an increase of 141.7%.

In 1914 the total tax levy was $1.6 millions smaller and the per capita levy $0.55 less than in the preceding year. In 1918 the total levy increased so little over the preceding year that a slight decline, $0.11, in the per capita figure resulted.

Table 15: General Property Taxes Extended on Illinois Tax Books, 1913 to 1925[1]

(Source: Biennial Reports of the Illinois State Auditor)

Levies	1913	1914	1915	1916	1917	1918	1919	1920	1921	1922	1923	1924	1925
Cook County													
State	$7,579,318	$5,396,766	$6,412,805	$9,210,997	$10,680,135	$9,825,332	$7,668,991	$7,775,587	$8,963,337	$8,776,802	$10,936,073	$13,378,644	$18,172,669
County	5,966,056	6,117,428	6,939,482	7,744,855	7,525,101	7,480,041	9,335,557	9,992,548	11,995,713	13,945,668	13,866,659	12,260,829	17,254,615
Township	..	284,968	276,307	287,467	293,079	343,823	621,336	289,954	443,666	2,535,305	3,577,361	5,038,034	1,129,039
City	16,966,190	17,580,451	20,074,316	21,531,023	22,784,863	23,031,428	36,298,862	40,282,465	50,216,678	49,402,613	56,183,207	54,400,735	59,495,790
Incorporated town	..	188,930	818,227	209,212	264,531	309,856	327,519	423,595	1,864,018	..	1,778,279	1,953,426	1,996,870
Schools	1,707,674	2,011,325	22,645,097	24,138,726	24,249,039	21,205,394	32,681,025	34,583,219	54,549,166	56,403,478	59,570,304	62,713,455	70,660,179
Roads and bridges	303,504	376,840	454,489	548,090	572,432	429,752	743,694	652,100	870,042	860,819	1,832,204	742,004	758,955
Levee and drainage	..	..	4,829,231	4,531,483	4,228,383	4,908,814	4,433,785	3,431,827	7,012,582	7,608,414	8,813,891	9,351,179	11,644,310
Park	..	..	5,371,632	5,203,934	5,696,708	5,955,172	7,276,867	7,506,759	9,193,281	9,771,018	12,312,795	13,993,273	14,559,207
Registered bond	83,522	86,645	92,508	196,467	110,043	158,647	149,836	149,729	257,943	252,023	258,399	263,899	496,492
All other	28,336,050	28,822,674	468,647	2,330,066	1,403,084	3,722,352	1,262,446	2,834,241	2,223,828	2,085,055	3,331,248	2,920,591	3,380,268
Total	$60,942,314	$60,866,027	$68,382,741	$75,932,320	$77,807,898	$77,370,611	$100,799,918	$107,922,024	$147,590,254	$152,156,588[2]	$172,459,415[2]	$177,016,069	$199,548,394
Per capita	$23.27	$22.66	$24.84	$26.93	$26.96	$26.20	$33.38	$34.97	$46.52	$46.97	$51.97	$51.96	$57.30
Per $100 of assessed valuation	5.77	5.64	6.11	6.81	6.77	6.61	5.64	6.00	7.96	8.41	9.51[3]	9.75[3]	10.46
All Counties													
State	$17,173,008	$12,032,815	$14,058,894	$20,388,303	$23,632,490	$20,873,359	$17,086,110	$17,630,728	$19,646,280	$18,763,750	$21,787,096	$27,898,985	$36,548,241
County	13,206,902	13,018,483	15,379,810	16,430,624	17,486,543	17,564,423	21,207,404	22,557,412	25,210,207	27,685,983	24,899,348	23,341,067	28,689,096
Township	..	1,493,312	1,570,914	1,605,982	1,705,867	1,984,197	2,489,405	2,495,802	2,802,178	4,964,494	2,475,679	5,775,157	5,677,178
City	24,590,255	24,478,222	27,637,021	29,071,012	30,934,045	31,847,617	48,385,492	53,558,333	64,159,726	64,365,985	69,153,264	68,009,285	72,846,737
Incorporated town	..	903,038	1,654,881	1,143,893	943,130	990,363	1,335,905	1,516,655	2,905,644	1,159,285	4,055,275	3,737,799	4,618,749
Schools	18,351,039	19,667,146	42,471,888	46,730,806	48,912,393	47,957,833	67,047,626	80,053,024	103,151,503	105,465,268	114,793,317	120,633,226	126,533,063
Roads	7,102,977	7,634,422	9,089,455	9,564,701	9,646,273	9,939,660	16,072,983	17,844,155	17,593,306	16,030,307	18,867,444	17,286,872	17,775,876
Levee and drainage	..	..	5,437,853	5,141,298	4,822,627	5,538,515	5,181,704	4,415,446	8,026,140	8,524,506	9,898,262	10,375,714	13,122,987
Park	..	..	5,698,401	5,829,846	6,366,329	6,644,863	8,052,250	8,360,354	10,232,068	11,511,626	13,462,634	15,252,559	15,853,232
Registered bond	982,440	3,009,129	836,103	979,420	784,286	832,707	1,027,199	941,968	879,218	1,016,199	1,038,501	559,153	1,119,150
Road bonds	..	..	..	..	..	..	..	..	1,335,393	2,037,870	2,263,296	1,068,246	837,876
Non-registered	..	..	109,167	873,946	488,720	781,212	900,073	868,563	757,096	969,339	920,016	1,647,036	1,756,295
All other	32,635,355	30,216,433	869,094	2,689,539	2,887,187	5,042,295	1,795,209	3,903,177	2,800,764	3,166,853	5,063,686	4,831,387	4,977,199
Total	$114,041,976	$112,453,000	$124,813,481	$140,449,370	$148,609,890	$149,997,044	$190,581,360	$214,145,617	$259,499,523	$265,661,465	$288,677,818	$300,416,486	$330,355,679
Per capita	$19.27	$18.72	$20.49	$22.73	$23.71	$23.60	$29.59	$32.80	$38.98	$39.39	$42.11	$43.00	$46.58
Per $100 of assessed valuation	4.71	4.58	4.99	5.61	5.76	5.61	4.64	5.06	6.18	6.64	7.81[3]	8.16[3]	8.73[3]

[1] Including back taxes.
[2] Total is official figure as given, but the items do not add to this total.
[3] Original, and not equalized assessment figures are used for these three years.

Otherwise throughout this period there was an increase from year to year both in the total tax levies and in the levy per capita. These annual increases are shown in the following table:

Year	Total Increase (Millions)	Increase per Capita
1915	$12.3	$1.77
1916	15.6	2.24
1917	8.2	0.98
1918	1.4	[1]
1919	40.6	5.99
1920	23.5	3.21
1921	45.4	6.42
1922	6.2	0.41
1923	23.0	2.88
1924	11.8	1.18
1925	30.0	3.58

Total taxes of Cook County increased from $60.9 millions in 1913 to $199.5 millions in 1925, a gain of 277.6%, as compared with an increase from $53.1 millions to $131.9 millions, or 148.4%, for the remaining counties in the state.

The increase in general property tax levies for state and county purposes has not been so large as for city, township, school districts and park districts. Because of faulty and changing classification, the figures for the latter taxing authorities are not directly comparable year by year, as levies for a specific purpose included in one item one year may be separately listed another year or may be included in another item. According to the records, levies for township purposes increased from $1.5 millions in 1914, when they were first separately listed, to $5.7 millions in 1925; city levies rose from $24.6 millions in 1913 to $72.8 millions in 1925; school district levies increased from $18.4 millions in 1913 to $126.5 millions in 1925; road district levies from $7.1 millions to $17.8 millions in 1925; and park district levies from $5.7 millions in 1915 to $15.9 millions in 1925.

Local Tax Rates

The rate of the state general property tax levy is the same for all counties. Whether a county be rich or poor, the state levy represents the same proportion per $100 of assessed valuation. Uniformity disappears, however, as soon as the

[1] Decrease of $0.11.

local levies are reached. Levies for county, township, city, town and village, school, road, and a bewildering array of levies for other purposes are superimposed on the state rate. The result, in some sections of the state, is a pyramiding of rates which, despite the Juul Law, may result in a practically confiscatory burden, while in other sections of the state the combined rate may be surprisingly light.

Three factors determine the burdensomeness of a tax levy, measured as a proportion of assessed property values. The first is the relative amount of revenue that must be raised to cover governmental expenditures. The second is the relative population density and the wealth or poverty of the district in taxable resources. The third is the extent to which the taxable resources of the district are included in the tax list. This last point becomes of great importance when contrasting urban and semi-urban districts with rural districts, for a large part of the taxable resources of the former consists of personalty which, as will be seen in the next chapter, largely evades the tax list.

Table 16[1] lists all the counties of the state with reference to their tax rates and their population per square mile, beginning with those in which the rates and population density are lowest. Chart 6 shows the geographical distribution of average county tax rates in the state.

TABLE 16: RANKINGS OF ILLINOIS COUNTIES BY TAX RATES IN 1922, AND BY POPULATION DENSITY IN 1920

Tax Rates per $100 Assessed Valuation (1922)			Population per Square Mile (1920)		
Rank	County	Rate	Rank	County	Density
	First Quartile			*First Quartile*	
1	Marshall	$2.59	1	Pope	25.0
2	Henderson	3.21	2	Henderson	26.0
3	Washington	3.44	3	Mason	30.0
4	Monroe	3.59	4	Schuyler	30.8
5	Stark	3.69	5	Iroquois	31.1
6	Warren	3.69	6	Kendall	31.1
7	Livingston	3.72	7	Wayne	31.1
8	Clinton	3.78	8	Brown	31.4
9	Morgan	3.78	9	Jasper	31.6

[1] It is doubtful whether Macon County is shown in its proper position in either Tables 16 and 17 or in Chart 6. The total taxes levied in this county in 1922, as reported by the U. S. Bureau of the Census, were $2,857,000. The state auditor shows only $2,438,000 taxes *extended* in Macon County in that year. A reservation must therefore be made in all calculations relating to Macon County.

TABLE 16: RANKINGS OF ILLINOIS COUNTIES BY TAX RATES IN 1922, AND BY POPULATION DENSITY IN 1920—(*Continued*)

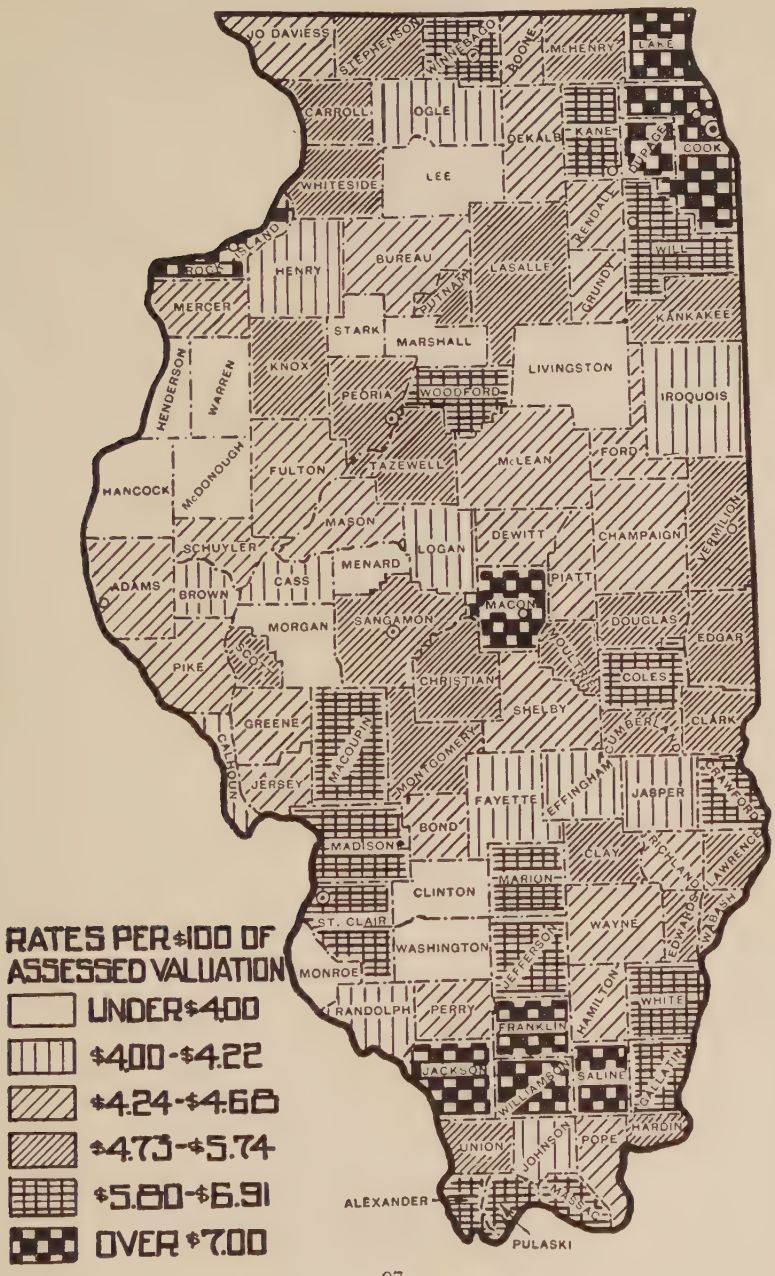
Tax Rates per $100 Assessed Valuation (1922)			Population per Square Mile (1920)		
Rank	County	Rate	Rank	County	Density
	First Quartile			*First Quartile*	
10	Menard	3.86	10	Washington	32.1
11	Hancock	3.94	11	Calhoun	32.2
12	Lee	3.94	12	Ford	32.9
13	McDonough	3.99	13	Monroe	33.0
14	Calhoun	4.00	14	Stark	33.4
15	Fayette	4.04	15	Pike	34.2
16	Brown	4.08	16	Johnson	34.5
17	Randolph	4.08	17	Jersey	34.6
18	Henry	4.10	18	Mercer	34.8
19	Logan	4.14	19	Piatt	34.8
20	Johnson	4.15	20	Hamilton	35.0
21	Iroquois	4.18	21	Jo Daviess	35.2
22	Ogle	4.18	22	Ogle	35.5
23	Cass	4.19	23	Fayette	35.9
24	Jasper	4.19	24	Cumberland	36.4
25	Effingham	4.22	25	Hancock	36.6
	Second Quartile			*Second Quartile*	
26	Ford	4.24	26	Woodford	36.6
27	Kendall	4.24	27	Menard	36.9
28	Mercer	4.26	28	Marshall	37.3
29	DeWitt	4.27	29	Livingston	37.5
30	Adams	4.28	30	Lee	37.7
31	Shelby	4.33	31	Gallatin	38.0
32	Jo Daviess	4.34	32	Scott	38.1
33	Pope	4.34	33	Clay	38.3
34	Champaign	4.38	34	Effingham	38.3
35	Schuyler	4.42	35	Shelby	38.3
36	Bond	4.44	36	Richland	39.3
37	Boone	4.46	37	Warren	39.4
38	McLean	4.47	38	Edwards	39.6
39	Pike	4.47	39	White	39.6
40	Wayne	4.51	40	Hardin	40.7
41	Bureau	4.52	41	Bond	41.4
42	Perry	4.53	42	Edgar	41.5
43	Grundy	4.56	43	Carroll	42.7
44	Hamilton	4.57	44	Clark	42.9
45	Piatt	4.57	45	Grundy	42.9
46	DeKalb	4.58	46	Putnam	43.8
47	Jersey	4.59	47	Moultrie	43.9
48	Greene	4.60	48	Greene	44.4
49	Fulton	4.65	49	McDonough	46.0
50	Richland	4.66	50	DeWitt	46.4
51	Macon	4.68	51	Douglas	47.0
	Third Quartile			*Third Quartile*	
52	Sangamon	4.73	52	Jefferson	47.2
53	Moultrie	4.79	53	Clinton	47.5
54	Stephenson	4.80	54	Logan	47.9
55	McHenry	4.81	55	Cass	48.2
56	Whiteside	4.82	56	Bureau	48.4
57	Knox	4.84	57	DeKalb	49.1

TABLE 16: RANKINGS OF ILLINOIS COUNTIES BY TAX RATES IN 1922, AND BY POPULATION DENSITY IN 1920—(*Continued*)

Tax Rates per $100 Assessed Valuation (1922)			Population per Square Mile (1920)		
Rank	County	Rate	Rank	County	Rate
	Third Quartile			*Third Quartile*	
58	Scott	4.86	58	Randolph	49.6
59	Putnam	4.88	59	Union	50.2
60	Edgar	4.94	60	Crawford	50.3
61	Tazewell	4.98	61	Perry	50.8
62	Carroll	5.04	62	Boone	52.3
63	La Salle	5.05	63	Whiteside	53.3
64	Clay	5.11	64	McHenry	53.5
65	Wabash	5.15	65	Fulton	54.5
66	Kankakee	5.16	66	Champaign	54.6
67	Montgomery	5.29	67	Henry	54.8
68	Edwards	5.35	68	Christian	54.9
69	Union	5.45	69	Massac	56.5
70	Vermillion	5.46	70	Morgan	58.3
71	Cumberland	5.47	71	McLean	58.9
72	Christian	5.57	72	Tazewell	59.6
73	Clark	5.58	73	Lawrence	59.7
74	Peoria	5.62	74	Montgomery	60.1
75	Lawrence	5.63	75	Jackson	63.1
76	Douglas	5.73	76	Wabash	63.8
77	Hardin	5.74	77	Knox	65.7
	Fourth Quartile			*Fourth Quartile*	
78	Massac	5.80	78	Marion	65.9
79	Macoupin	5.81	79	Macoupin	66.6
80	Woodford	5.86	80	Coles	66.9
81	Jefferson	5.95	81	Kankakee	67.3
82	Crawford	5.96	82	Stephenson	67.5
83	Winnebago	5.98	83	Adams	73.9
84	Coles	5.99	84	Pulaski	77.0
85	Will	6.01	85	La Salle	81.1
86	Alexander	6.20	86	Vermillion	93.6
87	Madison	6.29	87	Saline	96.1
88	Kane	6.30	88	Alexander	106.1
89	White	6.42	89	Will	110.1
90	Marion	6.65	90	Macon	111.4
91	Pulaski	6.75	91	Sangamon	114.5
92	St. Clair	6.86	92	Du Page	122.1
93	Gallatin	6.91	93	Franklin	128.7
94	Du Page	7.03	94	Williamson	136.1
95	Saline	7.09	95	Madison	145.0
96	Williamson	7.16	96	Lake	163.3
97	Lake	7.22	97	Winnebago	171.9
98	Jackson	7.29	98	Peoria	175.6
99	Rock Island	7.42	99	Kane	188.8
100	Franklin	7.48	100	St. Clair	205.9
101	Macon	7.58	101	Rock Island	217.7
102	Cook	7.62	102	Cook	3,272.3
Average rate for state		$6.26	Average density for state		115.7
Average rate for 101 counties (Cook County excluded)		$5.14	Average density for 101 counties (Cook County excluded)		62.3

Chart 6: Average County Tax Rates in Illinois, 1922

(National Industrial Conference Board)



In preparing this table and chart, all levies made in 1922 by governmental divisions within the counties have been added to the state and county levies, and by relating this combined levy to the assessed valuation in each county a composite or average tax rate for each county has been estimated. In each county there were districts where the rate was considerably higher than the county average, and there were other parts of the county where the actual rate was lower.

The combined state and local tax rate varied from $2.59 per $100 of assessed valuation in Marshall County to $7.62 in Cook County, a difference of $5.03, the Cook County average being almost three times as heavy as the average levy for Marshall County. The median range, comprising half of the counties, was between $4.24 and $5.74, a difference of $1.50. It is thus evident that though there is a great variability between the highest and lowest county averages, the median range is fairly uniform. The median rate in 1922 was between $4.68 and $4.73. The average for the state, however, was $6.26, because of the overwhelming concentration of taxable values and high rates in Cook County. The average rate for the hundred and one other counties was $5.14, about $0.44 above the median rate, showing that, to a certain extent, the counties with large assessments also have the higher tax rates.

A complete study of the effect upon the tax rate of relative amounts of revenue raised through superimposed taxing districts cannot be made because of the complexity of the Illinois system of tax districts. It is possible, however, to make a partial study of the effect of the large cities upon the average tax rates of the counties in which they are located. This has been attempted in Table 17 which presents the tax rates of the eleven counties in which one or more cities with populations exceeding 30,000 are located.

In each of these counties, excepting Macon,[1] the average tax rate outside the city limits was considerably lower in 1922 than the county's average with the city or cities included. In Cook County, the difference was $3.36. The smallest difference is found in Kane County where the tax rate of

[1] See above, footnote 1, page 94.

Aurora is $6.52 and that of the rest of the county is $6.16, the average for the county being $6.30. This county, however, contains the city of Elgin whose population in 1922 exceeded 25,000, and this factor undoubtedly raised the rate for the county outside of Aurora.

TABLE 17: THE EFFECT OF LARGE CITIES ON AVERAGE ILLINOIS COUNTY TAX RATES IN 1922

County	Average Tax Rate	City	Tax Rate	Average County Tax Rate Outside City
Adams	$4.29	Quincy	$5.72	$3.14
Cook	7.62	Chicago	7.70	..
		Cicerotown	12.11	..
		Evanston	9.27	4.26
		Oak Park	10.73	..
Kane	6.30	Aurora	6.52	6.16
Macon	7.58	Decatur	6.92	7.98
Peoria	5.62	Peoria	6.58	3.79
Rock Island	7.42	Moline	8.03	6.64
		Rock Island	7.62	
St. Clair	6.86	E. St. Louis	8.79	5.66
Sangamon	4.42	Springfield	6.66	3.29
Vermillion	5.46	Danville	6.68	5.03
Will	6.01	Joliet	9.79	4.80
Winnebago	5.98	Rockford	6.59	4.72

The cities supply their residents with municipal benefits which the rural population does not receive. These additional benefits are paid for by additional levies, in some cases more than doubling the rate of the other general levies. These additional levies necessarily raise the average rate for the counties in which these cities are located.

Relation of Tax Rates to Population Density

The second factor determining the relative burdensomeness of a tax levy is the relative density of population. As may be seen from Table 16 the relation of tax rates to population density is very slight for the middle fifty-one counties in each ranking. The extremes of the two lists, the counties above and below the middle groups, however, show some significant correlations. No county falling in the lowest group according to its tax rate ranking is found in the highest group of rankings by population density. Nor does any county falling in the lowest group as to population density

appear in the highest group of rankings by tax rates. Furthermore, there is a marked correspondence of the counties appearing in the lower half of the lowest group of each ranking, and in the upper half of each upper group. The association of tax rates with density of population is most marked in the counties which have an average tax rate of more than 7% and a population of more than 135 per square mile. While to some extent this is due to the effect of cities located in these counties, there can be no question that a certain degree of correspondence exists between tax rates and density of population.

Relation of Tax Rates to Wealth

The absence of statistics of wealth, actual taxable resources and income distributed by counties prevents a thorough comparison of relative rates by this criterion. A study of the rates in the counties of southern Illinois, however, illustrates some aspects of this relationship.

There are four counties (Franklin, Jackson, Williamson and Saline) in this part of the state with a tax rate of more than 7%. These counties have a relatively large number of cities and towns with populations exceeding 2,500. Though this fact undoubtedly affects the tax rates of these counties, it is probably not the most important factor. It may be noticed that several neighboring counties (Alexander, Pulaski, Massac, Union and Hardin) have rather high tax rates associated with a relatively high density of population. On the other hand, several of these southern counties (Jefferson, White, Gallatin) have high tax rates and rather sparse populations. Although the relatively higher tax rates in Franklin, Jackson, Williamson and Saline counties may be partly explained by the presence of many small cities, in general the high tax rates throughout southern Illinois must be ascribed to other causes which are uniform throughout that territory and which bear no relation to population density.

Southern Illinois, like most of the state outside of Cook County, is largely agricultural, but the agricultural conditions here are quite different from those in the rest of the state. As is evident from Chart 1,[1] the land in southern Illinois is

[1] See frontispiece.

considerably poorer than in the rest of the state. The average value of land and buildings per acre for the state as a whole in 1925 was estimated at $136.65 per acre.[1] Of the southern counties, with a tax rate above the median, Gallatin, with $67.97 per acre, had the highest average value; Hardin, with $23.77, had the lowest. In the southern part of the state a smaller proportion of the farm land is improved, and a smaller proportion is under crops, than elsewhere in the state. Under a general property tax system like that of Illinois, where the revenue is received chiefly from land valuations, the tax rates must be high if the tax burden in these counties is to be at all proportional to the needs of the population.

The ability to pay, however, measured on a per capita basis or by the value of products, does not place these counties at a disadvantageous position in comparison with the rest of the state. The season for crop growing is longer in the south than elsewhere in the state. Southern Illinois falls within the corn belt and winter wheat belt, while the state as a whole is in the corn belt. The effect is that, although the value of land in the south is far less than elsewhere in the state, the relative value of products is far greater than in the middle portion of the state.

The high tax rates in the south are thus partly explainable in terms of the relation of the Illinois tax system to the circumstances of agriculture. The association of relatively poor farm land which is made rather productive by more intensive cultivation by a fairly dense farm population has resulted in tax rates which are relatively high on the basis of assessed valuations, though not so excessive if compared on an income or population basis.

Finally, the effect of varying proportions of non-assessment in different parts of the state should also be taken into consideration. As will be pointed out in Chapter VI, intangibles escape assessment and taxation to a far greater degree than land and fixtures. The intangibles are centered in the larger cities. To the extent that these values escape assessment and taxation, the tax rate on the other taxable values must be increased. This situation is particularly

[1] Data on farm values from "U. S. Census of Agriculture: 1925—Illinois."

pressing in Cook County and in the city of Chicago. It should also be borne in mind that Cook County has the highest percentage of tax delinquency in Illinois.[1] To the extent that Cook County taxes are not collected, the rate of levy in general must be increased to bring in the revenues necessary to maintain the government.

School Revenues in Illinois

Despite the large amounts contributed by the state government to education, shown in Table 1 of this study, it should be realized that in its revenue aspects the Illinois school system still rests on the semi-independent local units. During the fiscal years 1923 and 1924, the state government raised and spent only 7.6% of the total revenue devoted to school purposes. The counties contributed only 1.2%. The townships and common and high school districts of the state, on the other hand, furnished 92.2% of the school revenues during these two years.[2] The sources of Illinois school support[3] for the fiscal year 1925 are shown in Chart 7 and Table 18.

Illinois, like many another state, long ago allowed the assets of its permanent school fund, derived in part from 3% of the proceeds of all sales of public land and in part from its share of the distribution of the federal surplus in 1837, to be expended for state purposes, converting a productive asset to a debt of the state to the school fund. The interest on the permanent school funds, which amounted in 1925 to $31,836.31, is in reality an appropriation made out of the general fund of the state. This is a very minor item beside the more significant revenue from the state school tax.

The state contribution to education is divided among the counties.[4] Such fines and forfeitures as are collected by the counties are added to these allotments which are then apportioned among the townships. Many townships have maintained the funds, derived from the sale of their sixteenth

[1] See above, p. 91.

[2] Frank M. Phillips, "Statistics of State School Systems, 1923–24," U. S. Bureau of Education Bulletin, 1925, No. 42, p. 25.

[3] Superintendent of Public Instruction, *op. cit.*, p. 406.

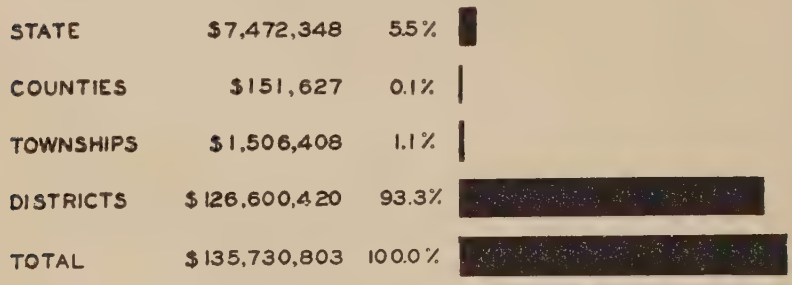
[4] See below, p. 106, for the bases of this distribution.

Table 18: Classification of Sources of School Revenue in Illinois

Source of Revenue	Permanent Funds	Taxes	Appropriation	Bonds	Miscellaneous
Federal Government....			Smith-Hughes subvention.		
State.....	1. 3% and surplus revenue funds (existing as permanent debt). 2. Kaskaskia Commons permanent fund.	State school fund tax.	1. To pay interest on permanent funds. 2. To reimburse local communities for classes and schools for defectives. 3. Salary and general expenses of Supt. of Public Instruction. 4. For vocational education and to match federal Smith-Hughes subvention.		
Counties...					Fines and forfeitures.
Townships.	Township funds (sixteenth section funds).	Only where township is organized as high school district.			Fines and forfeitures.
Districts...		I. General. (a) educational. (b) building. II. Special. (a) textbooks. (b) to extend school year. (c) high school taxes.		For buildings and grounds.	1. Fines and forfeitures. 2. Insurance adjustments. 3. Anticipatory tax warrants. 4. Interest on unexpended school moneys. 5. Sale and rent of school property. 6. Tuition fees.

CHART 7: SOURCES OF ILLINOIS SCHOOL REVENUE, FISCAL YEAR 1924–25

(National Industrial Conference Board)



sections, intact for school purposes, although in only too many cases these "sixteenth section" funds have been mismanaged and more or less dissipated. In 1925, the interest on these township funds amounted to $1,455,767.85. The interest from the "sixteenth section" funds plus any township fines and forfeitures is added to the school moneys apportioned by the counties, and the townships subdivide this fund among the school districts within their boundaries. Clearly the fundamental basis for school support is the system of school districts. The taxes raised by these districts during the fiscal year ended June 30, 1925 totaled $110,666,895.52, or 81.5% of the combined total of school moneys for the year. The school districts have the power to borrow for purchases of grounds and for school construction. Bonds issued by them during the year under consideration amounted to $8,517,982.51.

This distribution of the fiscal responsibility for schools in Illinois is in sharp contrast to the distribution in North Carolina and Tennessee, for example, where the counties contribute over sixty per cent of the school revenues, or to that in Delaware, where the state government raises and expends over three-quarters of the school revenue.[1] In fact, only in nine other states[2] do the state governments contribute a smaller proportion of the school support, and in only five

[1] National Industrial Conference Board, *op. cit.*, p. 129.

[2] Colorado, Connecticut, Florida, Iowa, Kansas, Nebraska, North Carolina, Ohio and Rhode Island.

states[1] do the local governments furnish a greater proportion of the school expenditures. For the country as a whole the distribution of school support during the two years 1923 and 1924 was as follows: states, 17.1%; counties, 10.0%; and local divisions, 72.9%.

That there are great dangers in extreme reliance upon local support for schools is stressed by many educational authorities.[2] On the one hand, local inertia may result in indifference to educational needs in backward communities. On the other hand, with the greatest will in the world to accord its children a sound education, a community may find itself handicapped by lack of resources. From a fiscal point of view, the second consideration is the greatest drawback to dependence on local school support.

In Stark County, in 1925 the equalized assessed valuation per child of school age was $4,377, as compared with $724 in Williamson county. The latter county had in the same year the third highest average school rate in the state, forty-eight mills, but even so it was hardly possible to overcome the handicap of its relative poverty. If smaller governmental divisions are taken as examples, the contrast becomes still greater. The city of Quincy had an assessed valuation of $5,757 per child in 1925; in Johnston City the corresponding figure was $836. In the one-teacher district, No. 50 of Lake County, the assessed valuation per child was $2,410,555; in district No. 151 of Wayne County, the figure was $10,145. Between the figures cited for these two districts there was a ratio of 237 to one.[3]

The natural disproportion in wealth as between districts is aggravated in many cases by particular local factors. Some districts include taxable railroad property, an important source of revenue, while neighboring districts, which may contribute equally to the business of the railroad, can draw

[1] Connecticut, Indiana, Kansas, Nebraska and Rhode Island.

[2] See E. P. Cubberley, "An Introduction to the Study of Education," Houghton Mifflin Co., 1925, p. 427; Fletcher Harper Swift, "Studies in Public School Finance; the Middle West," University of Minnesota, 1925, p. 87; other authorities, quoted to the same purpose, are to be found in Illinois State Teachers' Association, "Final Report of 1926 to the Committee on State School Fund."

[3] This subject is treated extensively by Floyd W. Reeves, "The Political Problem of Public School Finance in Illinois," Educational Finance Inquiry Commission, 1924, Ch. V.

no school taxes from it.[1] Furthermore in many cases, district boundaries may be so arranged that one district is called upon to provide school facilities for hundreds of children of workers, employed on properties assessed in other districts which have a relatively smaller number of children to be educated. This situation is not peculiar to Illinois, but is found in most of the states. Local inertia is exceedingly difficult to overcome, and local inequalities of resources can scarcely be adjusted by the districts themselves; the participation of the state government is required.

Distribution of the Illinois State School Fund

Prior to 1923, the state school fund was distributed on the basis of the number of children reported by the census in each district. At present the school fund of the state government of Illinois is distributed among the districts on the following basis:

(a) Seventy cents for each teacher-school-day; (b) a rate of $2.50 per teacher who is classified as a normal school graduate or who has equivalent preparation, $1.00 per teacher having at least 36 weeks of normal school training, and $0.50 per teacher having at least 18 weeks of normal school training or the equivalent, for each week taught, with a maximum of 36 weeks; (c) one and one-half cents per day of pupil-attendance; (d) special aid to weak districts having an educational tax rate of at least $2.00 per $100 of equalized assessed valuation and having an assessed valuation per full-time elementary teacher of $40,000 or less, the amount of aid being greater where valuations are lower; and (e) an additional $100 to each one-room elementary school district employing a normal school graduate for nine months.

Criticism of this method of state participation in education has come from various quarters. The principal charge is that it seeks to combine the principles of *stimulation* and *equalization*, which are more or less opposed to one another.[2]

A study in Kane County revealed that because of lower grade teachers and other factors the rural districts received

[1] Charter line properties of the Illinois Central Railroad are not subject to local taxation, but this exemption does not apply to the property of other lines.

[2] Illinois State Teachers' Association, *op. cit.*, p. 22.

less of the distributed money than the towns, and because of non-compliance with minimum health and safety requirements, more than half of the money due the rural districts was withheld. According to one authority, "A comparative study of the present plan of distributing state aid to 84 one-room rural schools (in Kane County) showed that instead of equalizing financial burdens it was making those less able to pay, pay more, and those most able to pay, pay less."[1]

In considering the efficiency of the state contribution to education in Illinois, it is to be remembered that the share of the state in the total expenditure is small. After a long period in which state support of education decreased relatively in importance, the movement is now apparently toward greater state participation in the support of schools.[2] It is by no means necessary that Illinois should follow the example of Delaware, which makes education primarily a function of the state government. Increased state participation,[3] however, might go far towards levelling the grosser inequalities between districts and toward raising the educational level of the entire state.

Comparative Corporate Tax Burdens in Illinois

It is possible to tabulate the value of capital stock, the net income and the state and local taxes paid by corporations whose main offices or places of business are in Illinois, from the returns filed by corporations subject to the federal income tax. Table 19 presents a tabulation of this nature together with computations as to the relative burden of the state and local taxes on different types of incorporated enterprises in the fiscal year 1924.

This comparative study has its limitations in that the figures do not cover *all* corporations organized for profit in the state, but merely those whose principal offices are in the state and whose returns are accredited to that state. Foreign corporations doing business in the state and paying state and local taxes to the taxing authorities in Illinois are not in-

[1] C. B. Althaus, "Distribution of Common School Fund in Kane County, Ill." (manuscript).

[2] See National Industrial Conference Board, *op. cit.*, p. 129.

[3] On this point, see the recommendations of Professor Swift, *op. cit.*, p. 86 *ff.*

TABLE 19: STATE AND LOCAL TAXES PAID BY CORPORATIONS IN ILLINOIS, 1924

(Source: U. S. Bureau of Internal Revenue)

Industrial Group	Taxable Fair Cash Value of Capital Stock of Corporations Reporting (In thousands)	Percentage Distribution of Capital Stock	Net Income of Corporations Reporting Prior to Deduction of Federal State and Local Taxes	Percentage Distribution of Corporate Net Income Prior to Deduction of Taxes	State and Local Taxes Paid by Corporations	Percentage Distribution of State and Local Taxes Paid	Per Cent State and Local Taxes Paid Are of Net Income Prior to Deduction of Taxes
Agriculture.....	$35,900	0.61	$219,256	0.03	$188,928	0.14	8.62
Mining and quarrying....	184,218	3.11	def. 1,693,491	−0.25	1,439,189	1.06	..
Manufacturing .	2,245,784	37.93	334,673,428	48.75	32,749,563	24.05	9.79
Construction...	64,762	1.09	13,159,305	1.92	318,258	0.23	2.42
Transportation	1,307,267	22.08	152,134,406	22.16	66,101,383	48.54	43.45
Trade.....	946,519	15.98	109,962,371	16.02	13,341,854	9.80	12.13
Public service ..	146,157	2.47	22,390,871	3.26	4,560,777	3.35	20.37
Finance.....	973,785	16.44	56,219,944	8.19	17,382,260	12.76	30.92
All others.....	17,018	0.29	def. 577,199	−0.08	90,178	0.07	..
Total.....	$5,921,410	100.00	$686,488,891	100.00	$136,172,390	100.00	19.84

cluded, because they file their federal tax returns from the state in which their principal office is located. Corporations whose business is principally carried on or whose main office is in Illinois, but whose business also extends to other states where it is subject to state and local taxation therein are, however, included in the figures given for Illinois. Insofar as the income and tax data reported by them cover their entire operations, whether transacted in Illinois or elsewhere, the conclusions based thereon must be of a limited character, since the state and local taxes and net income reported by them cannot be allocated to Illinois as distinct from other states. This statement applies particularly to steam railroads whose main office is in Illinois and whose lines run through many states; the results regarding steam railroads must thereby be accepted with reservations. It is believed, however, that in the vast majority of cases, with the exception of steam railroads, this complication does not arise, and that the general conclusions drawn from the data presented in Table 19 are not invalidated to a material degree by this deficiency in the material.

The largest single class of corporate taxpayers in 1924 was composed of the steam and electric railroads, which paid nearly one-half of all the state and local taxes contributed by Illinois corporations. On the other hand, the capital stock of the railroad corporations, amounting to $1,307 millions, represented only 22% of the capital stock of all corporations in the state. However, in view of the extensive interstate relationships of the steam railroads whose corporate offices are in Illinois, it is certain that, if the taxes paid by these roads to Illinois state and local governments could be separated from those paid to other states, the total of taxes paid by the railroads in Illinois would be found to be much lower than the figure in Table 19,[1] possibly ranking railroads below manufacturing corporations. Manufacturing corporations, representing 37.9% of the capital stock of corporations located in the state, paid 24.05% of the total corporation taxes. Corporation taxes paid by banking and finance institutions amounted to 12.8% of the total, while their capital stock represented 16.4% of the total of capital stock values in the state. Fourth in importance among corporate taxpayers were corporations organized for trade which paid 9.8% of these taxes.

With the exception of mining and quarrying corporations[2] and the unclassified corporations, both of which groups showed a deficit for 1924 even before the payment of federal, state and local taxes, the heaviest burden of state and local taxation was borne by the steam and electric railroad corporations, 43.5% of whose income was absorbed by corporation taxes. It is difficult to determine, however, what part of this railroad tax burden was attributable to Illinois, and what part to surrounding states through whose territory the lines of the roads ran. Financial institutions bore the next

[1] The Interstate Commerce Commission reported only $20,043,496 paid by Class I railroads to taxing authorities in Illinois in 1924. The net income of these roads which can be allocated to Illinois is not given; hence, a comparison cannot be made between the rate of railroad taxes to income calculated from these data and that shown by the Bureau of Internal Revenue reports.

[2] A significant factor in producing the high ratio of taxes to taxable income in the extractive industries is the depletion allowance which these industries deduct in determining this taxable income. The ratios for mining and quarrying industries in Table 19, therefore, are not comparable with the ratios for other industries.

highest burden, 31% of their net income[1] having been absorbed by state and local taxes in 1924. Over 20% of the income of public service corporations was absorbed by Illinois taxes.

The above figures and comparisons relate to the single year 1924 and cannot, of course, be interpreted as applying rigidly to the years following it. It is very likely that with a continuance in the rise of net income of railroads and public utilities, the burden of taxation on these corporations is somewhat lower today than in 1924, but these industries, together with banks and financial institutions, are nevertheless among those that are hardest hit by state and local taxes.

Comparison of Corporation Taxes in the United States

The amount of state and local taxation and the relation it bears to net income both before and after the deduction of federal taxes are shown in Table 20 for each state and for all corporations which make federal income tax reports.

In the interpretation of this table the same reservations that applied to the preceding table must be taken into account. Not all the state and local taxes paid by a corporation whose operations cover several states are paid to the state in which its head office is located. A certain overlapping of tax payments occurs and tends to blur the difference between states. The effect of this situation upon the figures in Table 20 is to make the differences less extreme.

There were in 1924 three states—Nevada, Oregon and Wyoming—where the general expenses of the corporations located in these states and the federal taxes they paid exceeded their incomes. Instead of net incomes they showed deficits. These deficits were further augmented by the state and local taxes paid by these corporations, although in no case were these taxes extreme, when measured as a ratio to the capital stock of corporations reporting for the federal capital stock tax. In four other states—Mississippi, Montana, New Mexico and Oklahoma—small net incomes remaining after the payment of federal taxes were converted into deficits by the payment of state and local taxes.

[1] The non-taxable income from dividends and from tax-exempt bonds is excluded from calculation. This makes the apparent burden of the taxes, as measured by income, higher than the actual burden, since a considerable proportion of the income of financial institutions is drawn from tax-exempt sources.

Table 20: Distribution of State and Local Corporation Tax Burdens by States, 1924

State of the Head Office of Reporting Corporations	Net Income before Deduction of All Taxes (In thousands)	Net Income after Deduction of Federal Taxes (In thousands)	State and Local Taxes (In thousands)	Per Cent State and Local Taxes Are of Net Income before Deduction of Federal Taxes	Per Cent State and Local Taxes Are of Net Income after Deduction of Federal Taxes
Alabama	$32,335	$28,008	$6,206	19.19	22.16
Arizona	4,875	3,960	2,698	55.34	68.13
Arkansas	14,870	12,818	3,423	23.02	26.70
California	341,778	292,982	77,364	22.64	26.41
Colorado	50,008	42,171	14,558	29.11	34.52
Connecticut	92,500	79,446	24,906	26.93	31.35
Delaware	33,426	27,963	5,913	17.69	21.15
District of Columbia	52,161	45,987	10,955	21.00	23.82
Florida	58,529	51,104	10,054	17.18	19.67
Georgia	39,175	32,991	10,646	27.18	32.27
Idaho	3,856	3,041	2,705	70.15	88.95
Illinois	**686,489**	**598,100**	**136,173**	**19.84**	**22.77**
Indiana	96,171	82,106	21,950	22.82	26.73
Iowa	37,394	31,477	12,320	32.95	39.14
Kansas	92,635	81,842	22,415	24.20	27.39
Kentucky	57,169	49,113	8,459	14.80	17.22
Louisiana	45,682	38,957	15,193	33.26	39.00
Maine	28,455	24,518	9,522	33.46	38.84
Maryland	84,482	73,850	21,987	26.03	29.77
Massachusetts	274,332	229,339	91,581	33.38	39.93
Michigan	507,297	445,529	71,422	14.08	16.03
Minnesota	110,591	95,815	38,002	34.36	39.66
Mississippi	6,697	5,201	5,510	82.28	105.94
Missouri	215,405	186,768	43,157	20.04	23.11
Montana	3,829	2,785	3,443	89.92	123.63
Nebraska	20,626	17,505	6,470	31.37	36.96
Nevada	def. 879	def. 1,065	798	..	..
New Hampshire	6,646	5,531	2,318	34.88	41.91
New Jersey	246,976	213,879	43,707	17.70	20.44
New Mexico	497	174	1,012	203.62	581.61
New York	2,031,168	1,765,005	434,889	21.41	24.64
North Carolina	79,520	68,889	14,374	18.08	20.87
North Dakota	3,023	2,513	2,035	67.32	80.98
Ohio	388,542	333,304	86,185	22.18	25.86
Oklahoma	6,588	1,861	9,180	139.34	493.28
Oregon	def. 2,267	def. 5,810	9,064	..	..
Pennsylvania	733,211	638,863	154,004	21.00	24.11
Rhode Island	17,849	11,984	9,681	54.24	80.78
South Carolina	9,280	7,619	7,176	77.33	94.19
South Dakota	2,600	2,175	1,761	67.73	80.97
Tennessee	41,906	35,598	10,289	24.55	28.90
Texas	132,877	114,237	31,132	23.43	27.25
Utah	18,336	15,940	6,415	34.99	40.24
Vermont	7,423	6,296	1,949	26.26	30.96
Virginia	74,843	64,471	19,481	26.03	30.22
Washington	42,270	35,481	18,292	43.27	51.55
West Virginia	36,202	29,653	13,251	36.60	44.69
Wisconsin	128,181	111,624	31,372	24.47	28.11
Wyoming	341	def. 169	1,139	334.02	..
Total	$6,995,900	$6,041,429	$1,586,536	22.68	26.26

In the country as a whole, state and local taxes paid by corporations represented 22.68% of the total net income of these corporations, and 26.26% of the income that remained after the payment of federal taxes. The ratios for Illinois were considerably lower than the average for the country. The state and local taxes paid by Illinois corporations in 1924 represented 19.84% of their net income prior to the payment of federal taxes, and 22.77% of the income remaining after payment of these taxes. Among the neighboring states only Kentucky had a lower ratio.

The Farm Tax Burden in Illinois

The increase of county and local tax rates has created a tax problem of growing proportions for the Illinois farmer. During the war, when the prices of agricultural produce were soaring, the slow but steady rise of farm tax rates passed unnoticed. The tidal wave of low prices which engulfed the farmer in 1920 reduced his income almost to the vanishing point. But the amount of taxes he was called upon to pay did not decrease; instead, it rose still higher. It has continued to rise and has become a burden keenly felt by the agriculturalists of the state.

Table 21 gives the net income of the farmers of the state before deduction of taxes for the crop years 1909–1910 to 1924–1925. The table shows two distinct periods with divergent tendencies. In the first period approximately from 1910–1911 to 1915–1916, the net income of farmers varied between $155 millions and $189 millions. The war brought prosperity, and during the crop year 1918–1919 the farmers of Illinois received nearly $569 millions of net income. Every year of this series saw an increase in the amount of farm taxes paid, from $17.1 millions in 1910–1911 to $36.5 millions in 1918–1919. However, whereas about 12% of the farmers' net income was absorbed by taxes during the period 1910–1911 through 1916–1917, the proportion fell to 6.4% in 1918–1919.

During 1921–1922, the farmers of Illinois received a net income of less than $124 millions. Their taxes in this year amounted to $58.2 millions, or 47% of their net income.

Table 21: The Burden of Farm Taxes in Illinois, Iowa and Missouri

(Amounts in Millions of Dollars)

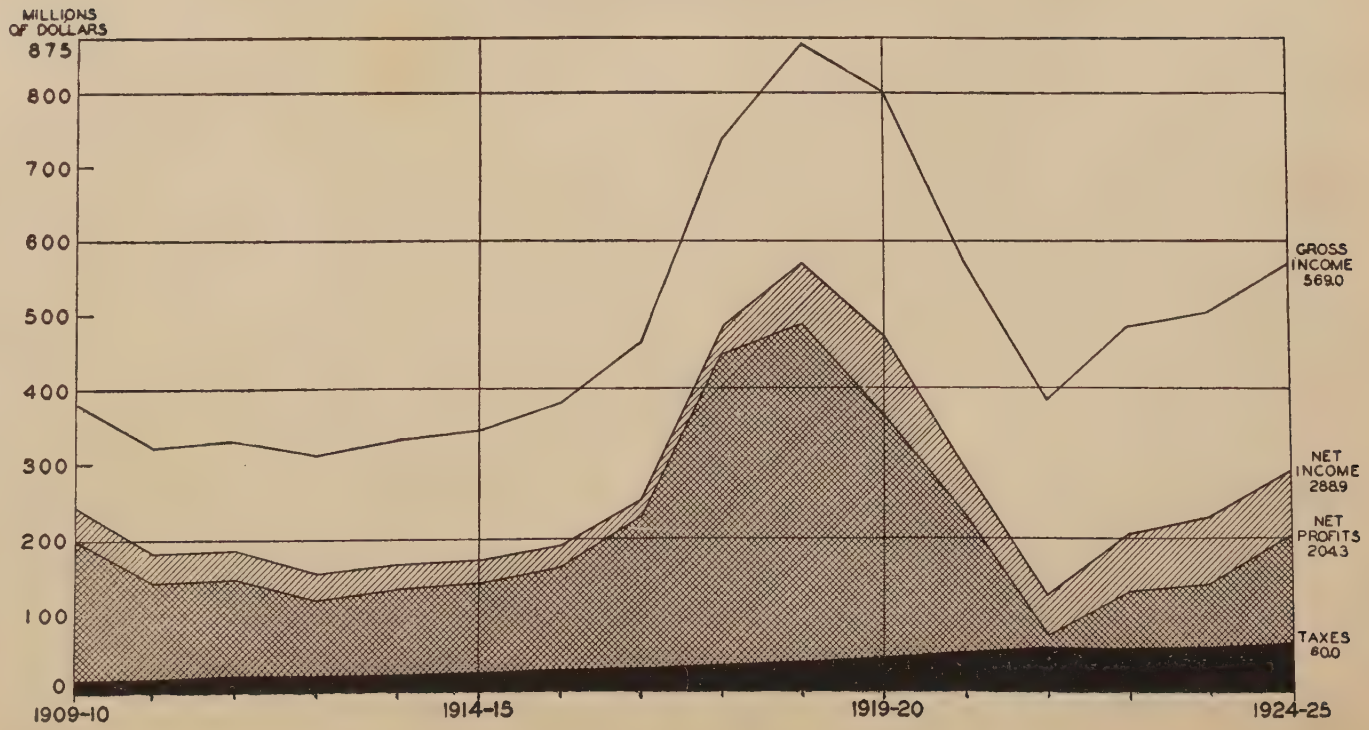
(Source: Interstate Commerce Commission)

	1909/10	1910/11	1911/12	1912/13	1913/14	1914/15	1915/16	1916/17	1917/18	1918/19	1919/20	1920/21	1921/22	1922/23	1923/24	1924/25
Illinois																
Net farm income[1]	$244.4	$183.0	$186.5	$155.0	$167.3	$171.5	$188.9	$250.3	$484.8	$568.9	$469.8	$293.2	$123.9	$204.5	$222.6	$288.9
Net farm profits I[2]	200.4	142.9	147.2	117.1	133.3	138.5	159.7	229.0	446.5	486.8	361.9	231.5	73.0	128.2	137.7	204.3
Net farm profits II[3]	114.2	49.1	39.2	9.2	16.9	0.8	25.4	98.6	333.3	265.4	165.5	−241.8	−265.2	−165.0	−140.6	−69.0
Farm taxes, amount	16.0	17.1	18.5	20.0	22.0	24.0	26.5	29.0	32.5	36.5	42.5	50.0	58.2	57.4	58.4	60.0
Farm taxes, per cent																
Of net farm income	6.5	9.3	9.9	12.9	13.2	14.0	14.0	11.6	6.7	6.4	9.0	17.1	47.0	28.1	26.2	20.8
Of net farm profits I	8.0	12.0	12.6	17.1	16.5	17.3	16.6	12.7	7.3	7.5	11.7	21.6	79.7	44.8	42.4	29.4
Of net farm profits II	14.0	34.8	47.2	217.4	130.2	3000.0	104.3	29.4	9.8	13.8	25.7	[4]	[4]	[4]	[4]	[4]
Iowa																
Net farm income[1]	$222.1	$216.5	$223.2	$241.7	$234.8	$229.2	$215.1	$374.6	$601.7	$633.1	$504.6	$251.5	$126.2	$261.3	$234.5	$312.9
Net farm profits I[2]	167.6	155.5	160.4	179.9	174.0	169.4	160.1	328.4	545.6	546.3	393.1	99.9	78.0	224.5	174.8	253.2
Net farm profits II[3]	149.4	141.3	138.8	153.6	141.3	133.0	121.2	280.2	503.5	456.7	314.0	−1.8	−105.5	44.8	24.5	102.6
Farm taxes, amount	12.8	14.2	16.0	18.5	21.0	24.0	27.0	30.0	25.0	41.0	50.0	60.0	69.0	68.9	70.0	72.0
Farm taxes, per cent																
Of net farm income	5.8	6.6	7.2	7.7	8.9	10.5	12 6	8.0	4.2	6.5	9.9	23.9	54.7	26.4	29.9	23.0
Of net farm profits I	7.6	9.1	10.0	10.3	12.1	14.2	16.9	9.1	4.6	7.5	12.7	60.1	88.5	30.7	40.0	28.4
Of net farm profits II	8.6	10.0	11.5	12.0	14.9	18.0	22.3	10.7	5.0	9.0	15.9	[4]	[4]	153.8	285.7	70.2
Missouri																
Net farm income[1]	$124.6	$115.3	$106.0	$102.5	$111.3	$110.1	$101.5	$139.0	$288.9	$283.3	$266.6	$112.5	$41.1	$95.6	$102.3	$130.8
Net farm profits I[2]	97.9	85.7	78.3	72.5	83.1	79.6	66.7	116.0	239.9	219.6	184.9	88.4	25.3	68.0	75.3	104.2
Net farm profits II[3]	32.4	20.2	−2.1	−4.8	−0.3	−17.5	−22.5	30.0	190.2	54.3	23.8	−217.7	−248.2	−181.6	−171.7	−141.4
Farm taxes, amount	9.5	10.1	11.0	12.0	13.0	14.3	15.8	17.5	19.5	22.0	26.0	30.0	34.9	34.4	35.0	36.0
Farm taxes, per cent																
Of net farm income	7.6	8.8	10.4	11.7	11.7	13.0	15.6	12.6	6.7	7.8	9.8	26.7	84.9	36.0	34.2	27.5
Of net farm profits I	9.7	11.8	14.0	16.6	15.6	18.0	23.7	15.1	8.1	10.0	14.1	33.9	137.9	50.6	46.5	34.5
Of net farm profits II	29.3	50.0	[4]	[4]	[4]	[4]	[4]	58.3	10.3	40.5	109.2	[4]	[4]	[4]	[4]	[4]

[1] Before deduction of taxes.
[2] Before deduction of taxes, but allowing farmer, wages of hired hand for his own labor.
[3] Before deduction of taxes, but allowing farmer, wages of railroad employees, for his own labor.
[4] Deficit years.

Chart 8: Farm Income and Taxes in Illinois, 1909–10 to 1924–25

(National Industrial Conference Board)



Conditions have improved somewhat since then, but as late as 1924–1925, over one fifth of the farmers' net income was absorbed by taxes.

The figure for "net income" does not take into consideration the labor put into production by the farmer and his family. If the farmer is considered to have earned wages thirty per cent above those received by hired farm hands, the farm taxes in 1921–1922 absorbed nearly eighty per cent of the net return upon his investment in land and improvements, while if his wage earning capacity is counted as equivalent to that of an average railroad worker, the taxes paid in every year since 1919–1920 have augmented an already existing deficit.

That the Illinois farmers' situation is not exceptional is shown by the statistics for Iowa and Missouri. In 1921–1922, a bad year for farmers throughout the country, 54.7% of the Iowa farmers' net income was absorbed by taxes. In Missouri the percentage was 84.9.

Summary

1. As the receipts from the state general property tax are irregular, no general rate of increase for state taxes can be determined. In the fiscal year ended September 30, 1915, total state collections were $16,799,996; in that ended June 30, 1925, they were $48,518,198.

2. During the past decade the general property tax has declined in importance in relation to the total revenue of the state government, although the revenue received from it has increased in amount. The inheritance tax, and particularly the motor vehicle registration tax, have increased in importance as sources of state revenue.

3. Over ninety-nine per cent of the tax revenues of the local governments in Illinois is contributed by the general property tax.

4. The amount of general property taxes extended annually for all state and local purposes has increased from $114,041,976 in 1913 to $330,355,679 in 1925. The increase of taxes extended was decidedly greater in Cook County than in the rest of the state.

5. The combined state and local tax rate in 1922, the only recent year for which figures are available, varied from a county average of $2.59 per $100 of assessed valuation in Marshall County to $7.62 in Cook County. Several factors account for high average rates in certain counties, namely, (a) the presence of cities and special districts with superimposed levies; (b) to a slight degree, density of population; (c) low value of agricultural land with a relatively high yield per acre as a result of intensive cultivation; (d) the existence of large amounts of non-listed property, particularly intangibles.

6. In Illinois the contribution of the state government towards school support is very small compared with the average for all the states. This extreme dependence on local support of education exposes the school system of the state to inequalities of development and maintenance as a result of inequalities of taxable resources in the local districts.

7. The relative burden of state and local taxes of corporations reporting from Illinois, as measured by the net income of these corporations before the deduction of these taxes, was somewhat lower in 1924 than the average for the country.

CHAPTER VI

ASSESSMENT PROBLEMS IN ILLINOIS

TIME and again, the general property tax, as employed by the American state and local governmental bodies, has been condemned both by students of taxation and by those who are called upon to administer the tax. The former find that it fails to apportion the tax according to the principle of "ability to pay," which is now the most widely accepted criterion of a just tax, that it fails to reach the rapidly increasing number of persons who have little or no property, but who enjoy large incomes. Sometimes it is desirable to distribute a part of the tax burden according to principles other than ability to pay, such as the benefit of certain governmental services to the tax-payer or the cost of such services to the state or local government, and here again it is found that the value of property has no closer relation to these principles than it has to that of "ability."

The general property tax is severely criticised because in its enforcement it often transgresses the principles of universality, uniformity and equality of taxation, which are the ends sought by those who champion the tax. These administrative shortcomings give greatest weight to the charges of "breakdown," so often brought against the general property tax.[1]

As it is levied and administered in Illinois, the general property tax has been the subject of scathing criticisms.[2] Some of the developments and abuses in which these criticisms are rooted are considered in the following pages.

[1] This discussion is summarized from Jens P. Jensen, "The General Property Tax" (unpublished University of Chicago doctoral dissertation), Ch. I.

[2] See particularly John A. Fairlie, "A Report of the Taxation and Revenue System of Illinois," 1910, p. 255; the special message of Governor Deneen in 1911 transmitting this report.

Assessment and Taxation of Land

Legal Provisions and Difficulties of Applying Them

The provision of the General Revenue Act (Sec. 4) for the assessment of real property is brief—"Each tract or lot of real property shall be valued at its fair cash value, estimated at the price it would bring at a fair voluntary sale." This is done at intervals of four years (counting from 1899), when the assessor is required to "view and value" all listed realty. One-half of this "fair cash value" is taken as the assessed value upon which the tax is levied.

The difficulty which confronts the elected township assessor is to arrive at this "fair cash value." With all the honesty and goodwill in the world, he must often err widely in his judgment. To a very large extent he must depend upon information given to him by the taxpayers. The extreme abuses that occur in the assessment of personalty do not and can not occur in the assessment of real property; for example, non-listing is negligible. Underassessment of real property, in greater or less degree, is, however, universal. Differing proportions of underassessment are to be noted according to the type and size of the farm or lot assessed.

In 1923 the Chicago and Northwestern Railroad made a study of the sale prices of farm lands and city lots in twenty-two counties through which its lines ran, and compared these sale prices with the assessed values of the same properties. Between 1923 and 1925 a similar survey was made in twenty-seven other counties by the Illinois Agricultural Association, which made a state-wide survey in 1926. The results of the three surveys are presented in Table 22, showing the ratio of assessed full values to sale prices for farms and for city lots.

The table reveals a marked degree of underassessment of both rural and urban real estate. Taking the state as a whole, farm land is assessed at about two-fifths of its true value and city lots are assessed at a slightly lower ratio. In the majority of counties, the ratios of underassessment lie very close to the state average, but there are a few extreme cases. In Bond County farm land is assessed at from 60% to 75% of its true value; in Putnam County it is assessed as low as 34%. In Richland County city lots are assessed at 60%

Table 22: Ratio of Assessed Full Value of Farms and City Lots to Fair Cash Value in Illinois Counties

(Source: Illinois Agricultural Association and the Chicago and Northwestern Railroad)

County	First Surveys (1923–1925)		Second Survey (1926)	
	Farms	City Lots	Farms	City Lots
	%	%	%	%
Adams	53.4	49.8	..	..
Alexander	..	..	45–50	43–44
Bond	..	..	60–75	..
Boone	38.9	50.2	45–48	48–50
Brown	45.3	44.1	45–48	43–45
Bureau	31.8	39.6	..	..
Calhoun	..	..	35–40	38–40
Carroll	..	..	36–40	..
Case	..	..	40–42	40–42
Champaign	40.0	31.6	40–42	30–32
Christian	47.2	37.4	42–45	..
Clark	..	..	42–44	..
Clay	..	..	58–60	32–34
Clinton	45.3	40.4	48–50	40–42
Coles	..	..	38–40	..
Cook	..	..	..	..
Crawford	..	..	..	..
Cumberland	..	..	48–50	..
De Kalb	38.9	48.9	40	40–42
De Witt	..	..	36–38	..
Douglas	..	..	38–40	..
Du Page	35.4	30.0	34–38	28–32
Edgar	..	..	45–50	40–42
Edwards	..	..	50–54	..
Effingham	..	..	54–56	45–50
Fayette	..	..	..	..
Ford	41.7	37.2	40–42	37–39
Franklin	51.0	32.3	43–44	32–33
Fulton	..	..	38–40	..
Gallatin	42.9	39.7	42–44	38–40
Greene	44.2	47.8	42–44	42–44
Grundy	40.8	46.9	42–44	44–46
Hamilton	..	..	..	..
Hancock	..	..	40–42	..
Hardin	..	..	..	..
Henderson	42.2	48.9	40–42	..
Henry	..	..	40–42	..
Iroquois	..	..	44–46	..
Jackson	..	..	..	..
Jasper	..	..	..	..

TABLE 22: RATIO OF ASSESSED FULL VALUE OF FARMS AND CITY LOTS TO FAIR CASH VALUE IN ILLINOIS COUNTIES —(*Continued*)

(Source: Illinois Agricultural Association and the Chicago and Northwestern Railroad)

County	First Surveys (1923–1925)		Second Survey (1926)	
	Farms	City Lots	Farms	City Lots
	%	%	%	%
Jefferson	44.2	30.2	..	..
Jersey	..	..	42–44	..
Jo Daviess	34.9	36.7	46–48	40–42
Johnson	63.7	59.6	46–48	..
Kane	44.0	36.5	42–46	32–34
Kankakee	..	..	..	..
Kendall	..	..	38–40	..
Knox	..	..	36–38	38–40
Lake	31.0	31.9	..	30–32
La Salle	34.5	32.3	36–38	38–40
Lawrence	43.3	33.3	52–54	..
Lee	37.0	48.9	38–40	38–40
Livingston	..	..	40–42	..
Logan	42.6	39.7	40–42	38–40
Macon	..	..	40–42	..
Macoupin	39.0	33.3	40–42	36–38
Madison	48.1	30.5	50–56	30
Marion	59.5	30.9	50–60	38–40
Marshall	40.3	46.8	40–44	..
Mason	40.1	40.8	..	..
Massac	..	..	..	..
McDonough	..	..	42–44	..
McHenry	42.2	44.4	46–48	..
McLean	44.7	42.6	40–41	40–41
Menard	39.5	46.6	42–44	..
Mercer	..	..	40–42	..
Monroe	55.4	54.6	54–56	..
Montgomery	49.9	36.3	48–50	40–42
Morgan	48.9	53.9	50–52	50–52
Moultrie	..	..	40–42	..
Ogle	45.9	38.9	40–42	40
Peoria	41.2	40.4	40–42	36–38
Perry	..	..	..	..
Piatt	..	..	40–42	..
Pike	..	..	42–44	40–42
Pope	..	..	54–56	..
Pulaski	61.3	52.8	54–60	50–55
Putnam	..	..	34–36	..
Randolph	..	..	..	..
Richland	62.5	62.2	60–65	60–65

TABLE 22: RATIO OF ASSESSED FULL VALUE OF FARMS AND CITY LOTS TO FAIR CASH VALUE IN ILLINOIS COUNTIES —(*Continued*)

(Source: Illinois Agricultural Association and the Chicago and Northwestern Railroad)

County	First Surveys (1923–1925)		Second Survey (1926)	
	Farms	City Lots	Farms	City Lots
	%	%	%	%
Rock Island	28.9	34.0	40–42	32–36
St. Clair	58.9	42.8	..	..
Saline	..	..	..	..
Sangamon	42.4	41.5	44–46	36–38
Schuyler	..	..	36–38	..
Scott	..	..	50–52	50–52
Shelby	..	..	44–46	..
Stark	36.4	48.7	40–42	..
Stephenson	33.4	39.0	40–44	40–44
Tazewell	39.0	30.6	40–42	34–36
Union	..	..	..	..
Vermillion	50.5	35.8	50–54	36–40
Wabash	55.6	60.9	54–60	50–52
Warren	..	..	36–38	..
Washington	..	..	50–52	..
Wayne	..	..	42–44	..
White	..	..	40–42	..
Whiteside	35.4	45.1	40–42	42–44
Will	..	..	..	..
Williamson	..	..	..	..
Winnebago	44.3	44.7	44–50	38–40
Woodford	..	..	36–38	..

to 65% of their true value; in Du Page County, at 28% to 32%.

If there were one general ratio of assessed to true value for real property throughout the state, it might violate the principle of uniformity as between classes of property, but it would, at least, assure uniformity of taxation for all landowners throughout the state. With such variations of assessment ratios as Table 22 discloses, however, even this uniformity is lacking. Landowners in Bond County pay twice as much under the state levy upon an equal value of property as do the landowners in Putnam County. These differences in assessment ratios work no hardship as long as the only taxes based on them are levied wholly within the county;

inequality, however, results as soon as a state rate, uniform throughout the state, is based upon them.

Methods of Equalizing Assessments

To eliminate this inter-county inequality of assessment, both of realty and personalty, the various states have created state boards of equalization and state tax commissions. Presumably a check is made upon the assessments by hearings and by a comparison of sale prices with assessment values. The assessments of counties where the ratio of assessment to real value appears low are then raised for state tax purposes, while for counties where a high ratio is found, the assessments are lowered, until more or less of an equality in assessment is reached. Little or no attempt is made by these state bodies to correct inequalities which appear within the counties, as these are presumably eliminated by county boards of review or equalization.

Illinois had an elective board of equalization from 1867 to 1913.[1] Its only attempts at inter-county equalization of land assessments were increases forced on individual counties whose representatives on the board sought to criticize its methods of procedure.[2] This worthless board of equalization was abolished in 1919,[3] and a state tax commission substituted. This body has escaped the abuse heaped upon its predecessor by taking refuge in more or less complete inactivity. Since 1922 it has enforced no equalizations, either of land or of personalty.

This lethargy of the tax commission has thrown the delicate task of seeking to attain equalization into the hands of interested private groups. An example is found in the activity of the Illinois Agricultural Association, which collected the data on the ratios of realty assessment in the Illinois counties, utilized in Table 22 of this study. These data are distributed by the state organization to its local member associations, and are utilized by them in arriving at assessment compromises with the local assessors. A simi-

[1] See Harvey L. Lutz, "The State Tax Commission," Harvard University Press, 1918, pp. 66–76.

[2] *Ibid.*, p. 71.

[3] See Fairlie, *op. cit.*, p. 201, and Fairlie, "Report on Revenue and Finance Commission," 1914.

lar activity is carried on by the Chicago and Northwestern Railroad Company.

The dangers lurking in such a situation are self-evident. The initiative of interested or aggrieved bodies of taxpayers can not be a substitute for the disinterested and impartial consideration of these problems which could be given by an active and intelligent commission.

Two other difficulties beset the taxation of land for general property taxation. The first is a tendency to assess city lots and farm lands at differing ratios to their real value. Two conflicting tendencies operate to produce this situation. On the one hand, the speculative value of city lots, which enters into their sale price, is not always taken into consideration in the assessment process. Yet, on the other hand, when the assessment is in the hands of city officials or of local officials who are dominated by the governmental organization of a large city, it is likely to be more effective than the assessment in surrounding rural territory; and this tends to raise the assessment ratio of the city. In Illinois, apparently the first factor has prevailed over the second, since for the state as a whole the ratio for the assessment of city and town lots is below that for the assessment of farm lands, although exceptions are found in many counties.

The second difficulty is that large properties are frequently underassessed in comparison with small holdings. So far as farm land is concerned there is evidence that the assessment of large and small holdings in Illinois is more or less upon a footing of equality.[1] In the case of town and city lots, however, there is a notorious underassessment of large lots, partly because these embody the greatest speculative value.

In Table 23 the ratios of assessment in 1923 are shown for 5,910 lots of city property in twenty-two counties, traversed by the lines of the Chicago and Northwestern Railroad Company.

The median of the assessment ratios of the 1,143 properties of a value less than $10,000 was 50%. As the value of the property increased, the ratio of the assessed value to the true value decreased. Properties valued above $50,000 were

[1] Althaus, *op. cit.*, p. 124.

TABLE 23: RATIOS OF ASSESSED TO TRUE VALUES FOR 5,910 CITY LOTS OF VARYING SIZES IN 22 ILLINOIS COUNTIES, 1923

(Source: Chicago and Northwestern Railroad Company)

Ratio of Assessed to True Value	Value of Lots Transferred										Total Transfers
	Less than $10,000	$10,000 to $20,000	$20,000 to $30,000	$30,000 to $40,000	$40,000 to $50,000	$50,000 to $60,000	$60,000 to $70,000	$70,000 to $80,000	$80,000 to $90,000	Over $90,000	
90%–100%	9	12	1	..	1	3	..	..	..	..	26
80 – 90	42	47	20	11	10	3	1	..	2	4	140
70 – 80	98	63	45	21	16	12	7	6	3	4	275
60 – 70	178	110	76	47	30	21	15	13	6	16	512
50 – 60	223	202	105	120	51	49	26	17	16	34	843
40 – 50	273	264	224	149	145	63	46	38	25	64	1,291
30 – 40	155	215	231	198	148	116	97	54	31	67	1,332
20 – 30	136	154	187	169	137	114	91	49	29	89	1,155
10 – 20	29	43	48	54	43	38	18	17	12	34	336
Total	1,143	1,110	937	769	581	419	301	194	124	332	5,910
Median rates of assessed to true value	50%	46.9%	42.1%	40.1%	39.0%	37.7%	36.6%	37.7%	38.5%	36.8%	42.8%

assessed at considerably less than forty per cent of their true value.

ASSESSMENT OF PERSONAL PROPERTY

Growth of Personal Property

There was a time when personal property played a relatively unimportant rôle in the economic wealth of nations. The whole economic and social structure was then built upon real estate, and ownership of land and improvements was practically synonymous with ownership of wealth. Securities franchises, patents, credits and other intangibles did not exist; all these are manifestations of industrial development, and they grew in volume and importance with the expansion of the factory system. Under primitive agricultural economy, practically the only forms of personal property (as defined under the general property tax laws) were livestock and stocks of agricultural produce on hand. Agricultural tools and implements came later. However, the assessment for taxation purposes of personal property in the earlier stage of agricultural development presented no greater difficulties than the evaluation of the land itself and the buildings thereon. It was all visible to the tax assessor and nothing could escape bearing its proportionate share of maintaining such government authority as then existed.

The developments of the past century have completely altered the complexion of economic life and have produced far-reaching changes in the character of wealth which in turn have created new and difficult problems of taxation. Recent years have seen a vast extension of the limited-liability entity, the corporation, and with it of various certificates of ownership, bonds, stocks, notes and the like. Deposits, loans and discounts have made their appearance, covering stocks of raw material needed for manufacturing, semi-manufactured and wholly manufactured goods awaiting distribution, and other forms of working capital. Government authorities have resorted to public credit whenever existing revenues could not meet the enlarged volume of contemplated expenditures which a highly complex democratic society demanded, and government securities of all kinds have grown in volume. The increasing concentration of people in cities and the lessening self-sufficiency of communities have occasioned an imperative need for ready intercommunication and for special services now rendered by public utilities, which in turn gave rise to franchises, patents, and similar evidences of intangible values. Land and buildings, as the predominating factors of wealth ownership, thus began to give away to personal property, and as time went on the latter has shown the more rapid rate of growth. Today, it may safely be asserted, the value of personal property as conceived by the taxing system far out-distances the value of real estate in all the more industrialized nations of the world.

Evasion of Taxation by Personal Property

The increase in physical volume and value of personal property in this country has not been reflected in any commensurate gain in the public revenues from this source under the general property tax system. In fact, the relationship has been just the reverse in most cases. As this class of property grew in importance in the sum total of economic wealth, its contribution to the revenues under the general property tax fell off. Its contribution to state and local government treasuries has been practically in inverse ratio to its growth.

The reasons are not far to seek. For the most part personal property is easily concealed from the gaze of the tax assessor, and is difficult to evaluate. Subjection of personal property to the same rate of taxation as applies to all other property, and application of the strict letter of the law, would result in virtual confiscation of income and savings. Personal property generally eludes the assessor and fails to make its appearance on the tax rolls. Tax assessors are generally resigned to this failure of the taxing laws, partly because of the defects in the laws themselves which limit the powers of investigation, and partly because of inertia and because they realize the impossibility of any satisfactory solution under the general property tax system. Sporadic efforts are made from time to time to ameliorate the situation after a fashion and to smooth out some of its most conspicuous inequalities, but only too often these attempts are half-hearted and foredoomed to failure.

Illinois System of Assessing Personal Property

The Illinois General Revenue Act requires all personal property to be valued at its "fair cash value," less deductions allowed by law to be made from credits. This value is to be set down by the assessor in one column of the return to be headed "full value," and one-half is to be ascertained and set down in another column, which is headed "assessed value." It is the latter figure which is used in applying the tax and debt limitation provisions contained in the Constitution and in the statutes. Personal property is valued annually as of the first day of April, whereas real estate is valued quadrennially.

The assessor is supposed to call annually at the office, place of business or residence of each person owning taxable personalty and list his name. He then requires such person to make a correct statement of all his taxable property in the form prescribed by law, which is to be signed, sworn to and returned to the assessor, who in turn places his own valuation upon the property listed[1] and enters it in his books. If a person refuses to fill in the required schedule or to subscribe or swear to the same, the assessor is required to list the

[1] *People v. Ry. Co.*, 273 Ill. 267.

property according to his best knowledge, information and judgment and to add a 50% penalty thereto.

An important feature of the personal property tax law is the permission to deduct debts from the amount of credits reported. From the gross amount of all credits, the taxpayer is allowed to deduct under oath all bona fide debts owing by him for a consideration received. The law explicitly states that "no acknowledgment of indebtedness not founded on actual consideration, believed when received to have been adequate, and no such acknowledgment made for the purpose of being so deducted, shall be considered a debt within the meaning of this section; and so much only of any liability, as surety for others, shall be deducted as the person making out the statement believes he is legally and equitably bound, and will be compelled to pay on account of the inability or insolvency of the principal debtor." The penalty for fraudulent statements as to these deductions is a fine of $100 to $1,000, in addition to all damages sustained by the taxing authorities. This deduction applies only to credits and is not permissible in the case of banks or corporations exercising banking powers or privileges. Deductions from credits on account of indebtedness do not cover the amount of any bonds, stocks or money loaned, or on account of any bond, note or obligation of any kind, given to any insurance company on account of premiums or policies, nor on account of any unpaid subscription to any religious, literary, scientific or charitable institution or society, nor on account of any subscription to or installment payable on the capital stock of any company, whether incorporated or unincorporated.

Shares of stock of foreign corporations are assessed to the shareholder at his residence. Shares of stocks of state and national banks are assessed to shareholders where the bank is located, less deductions for real estate owned by the bank and situated in the county in which the bank is located.

Extent of Assessment of the Various Classes of Personal Property

The preceding discussion has shown what falls under the heading of personal property in the contemplation of the tax

laws and how it should be assessed for taxation purposes under the general property tax. In order to understand the problems of taxation which the growth of personal property has created it is necessary to analyze the relative importance of the various classes of personalty in the tax system of the state and the difficulties of making them bear their proportionate share of the tax burden under the method of assessment provided by the general property tax.

Tables 24 and 25 present the equalized assessed valuation of the several classes of property in Illinois from 1913 to 1925.

In 1913, real estate and improvements thereon represented in value 69.0% of all taxable property; personal property assessed locally constituted 21.0%; railroads 8.7%, and the capital stock of corporations assessed by the State Board of Equalization (now the State Tax Commission) 1.2%. By 1925, real estate and improvements had grown slightly in importance to 71.1% of the total, and capital stock of corporations assessed by the State Tax Commission had increased to 1.4%, whereas locally assessed personal property had fallen off to 19.1% and railroads stood at 8.4%.

Decline in Local Assessments of Personal Property

While the *full* assessed value of all real property subject to taxation increased 18.3% between 1913 and 1925, railroad property about 17.6% and capital stock of corporations 35.6%, the value of personal property,[1] as determined by the local tax assessors, showed a gain of only 15.7%, despite the prodigious increase in the totality of inventories, intangibles and other moneys and credits which is a matter of common observation and knowledge. In fact, from 1920[2] to 1924 the assessed value of personal property in the state as a whole showed a continuous decline, from $929.3 millions in the former year to $781.7 millions in 1924. There was a slight increase in 1925, to $800.2 millions. The bulk of the decrease in personal property assessments has taken place outside of Cook County in which the city of Chicago is located. Personal property in Cook County, after rising to

[1] Other than capital stock of corporations assessed by the State Tax Commission or its predecessor, the State Board of Equalization.

[2] From 1919 onward, property was supposed to have been assessed at one-half of full value.

Table 24: Equalized Assessed Value of Taxable Property in Illinois, 1913 to 1925

(Source: Annual Reports of State Board of Equalization and State Tax Commission)

(In thousands)

Class of Property	1913	1914	1915	1916	1917	1918	1919	1920	1921	1922	1923	1924	1925
A. Cook County													
Lands and improvements	$30,270	$30,050	$30,015	$29,206	$29,964	$30,591	$44,733	$53,355	$54,946	$50,339	$55,748	$55,145	$60,551
Town and city lots	707,780	728,433	774,022	769,403	780,696	785,488	1,218,166	1,208,846	1,221,536	1,223,131	1,351,914	1,353,914	1,432,746
Personal property	231,974	229,747	232,070	231,023	252,762	260,710	398,850	405,625	440,665	394,308	394,730	393,640	414,511
Net receipts of insurance companies													
Railroads	59,171	61,443	58,103	60,737	61,564	63,557	98,753	100,594	98,748	96,818	98,516	104,559	97,048
Capital stock of corporations	27,696	29,181	25,641	24,809	23,770	29,894	26,757	28,847	37,690	45,171	46,374	46,279	45,943
Total	$1,056,891	$1,078,854	$1,119,851	$1,115,177	$1,149,689[2]	$1,170,239	$1,787,259	$1,797,267	$1,853,585	$1,809,767	$1,947,282	$1,953,537	$2,050,799
Per capita	$403	$402	$407	$396	$398	$396	$592	$582	$584	$559	$587	$573	$589
Number of corporations assessed with tax on capital stock[1]	536	946	868	631	990	1,237	1,371	1,906	1,679	1,878	1,757	1,462	1,786
B. Remainder of State (101 Counties)													
Lands and improvements	$665,418	$664,514	$666,841	$668,485	$672,244	$676,166	$1,117,403	$1,207,406	$1,151,813	$1,028,315	$984,133	$974,418	$973,731
Town and city lots	268,996	278,352	277,833	281,664	287,423	290,763	455,684	461,142	466,993	476,194	487,281	497,677	513,328
Personal property	277,650	274,377	275,751	277,932	287,297	323,280	507,792	523,692	474,812	426,687	407,109	388,137	385,655
Net receipts of insurance companies												1,099	1,690
Railroads	151,729	157,862	157,355	157,380	158,469	161,283	233,766	235,285	243,835	249,573	255,646	255,857	255,767
Capital stock of corporations	1,677	2,007	1,681	1,449	2,690	4,354	8,271	10,159	10,546	9,962	9,058	11,152	13,799
Total	$1,365,471	$1,377,112	$1,379,461	$1,386,910	$1,428,302[2]	$1,455,845	$2,322,916	$2,437,684	$2,348,090	$2,190,730	$2,143,228	$2,128,341	$2,143,970
Per capita	$414	$415	$413	$413	$422	$428	$679	$708	$674	$625	$606	$595	$594
Number of corporations assessed with tax on capital stock[1]	172	469	343	249	316	1,127	925	1,060	882	714	616	665	744
C. Entire State (102 Counties)													
Lands and improvements	$695,688	$694,564	$696,856	$697,691	$702,208	$706,757	$1,162,136	$1,260,761	$1,206,759	$1,078,654	$1,039,881	$1,029,563	$1,034,282
Town and city lots	976,776	1,006,785	1,051,855	1,051,066	1,068,119	1,076,251	1,673,850	1,669,988	1,688,529	1,699,325	1,839,195	1,851,592	1,946,074
Personal property	509,624	504,124	507,820	508,955	540,059	583,990	906,642	929,317	915,477	820,995	801,840	781,777	800,166
Net receipts of insurance companies												1,099	1,690
Railroads	210,900	219,305	215,459	218,117	220,033	224,840	332,519	335,879	342,584	346,390	354,161	360,416	352,815
Capital stock of corporations	29,373	31,188	27,322	26,258	26,460	34,247	35,028	39,006	48,326	55,133	55,433	57,431	59,742
Total	$2,422,362	$2,455,966	$2,499,312	$2,502,087	$2,577,991[2]	$2,626,084	$4,110,175	$4,234,951	$4,201,675	$4,000,497	$4,090,510	$4,081,878	$4,194,769
Per capita	$409	$409	$410	$405	$411	$413	$638	$649	$631	$593	$597	$584	$591
Number of corporations assessed with tax on capital stock[1]	708	1,415	1,211	880	1,306	2,364	2,296	2,966	2,561	2,592	2,373	2,127	2,512
Percentage of true value supposed to be represented by assessed values	33⅓%	33⅓%	33⅓%	33⅓%	33⅓%	33⅓%	50%	50%	50%	50%	50%	50%	50%

[1] Exclusive of those assessed by local assessors.

[2] Total does not represent the addition of items in the column. Discrepancy cannot be localized in official reports.

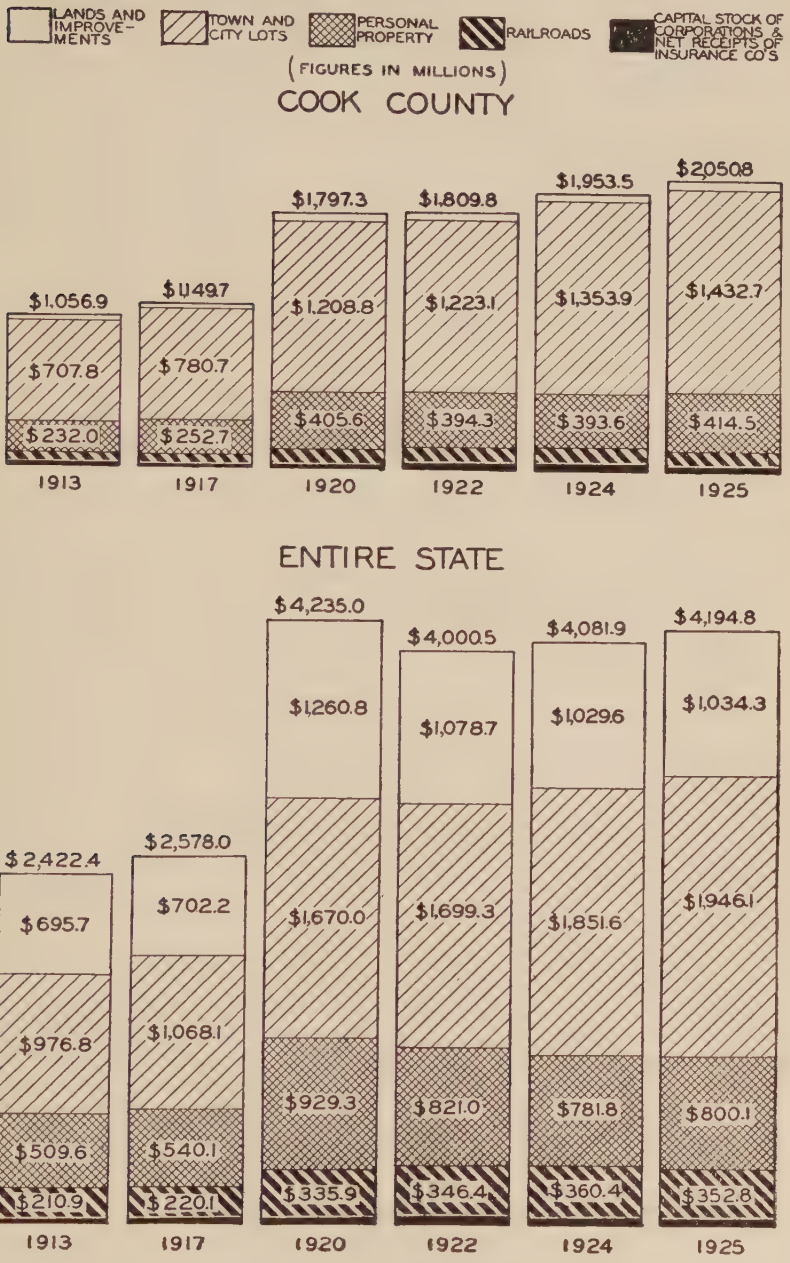
Table 25: Percentage Distribution of Taxable Property in Illinois, 1913 to 1925

Class of Property	1913	1914	1915	1916	1917	1918	1919	1920	1921	1922	1923	1924	1925
A. Cook County													
Land and improvements	2.86	2.79	2.68	2.62	2.61	2.61	2.50	2.97	2.96	2.78	2.86	2.82	2.95
Town and city lots	66.97	67.52	69.12	68.99	67.90	67.12	68.16	67.26	65.90	67.58	69.43	69.31	69.87
Personal property	21.95	21.30	20.72	20.72	21.99	22.28	22.32	22.57	23.77	21.79	20.27	20.15	20.21
Net receipts of insurance companies	..	..	..	..	..	..	..	..	..	..	..	..	..
Railroads	5.60	5.69	5.19	5.45	5.35	5.43	5.53	5.60	5.33	5.35	5.06	5.35	4.73
Capital stock of corporations	2.62	2.70	2.29	2.22	2.07	2.55	1.49	1.60	2.03	2.50	2.38	2.37	2.24
Total[1]	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
B. Remainder of State (101 Counties)													
Land and improvements	48.73	48.25	48.34	48.20	47.07	46.44	48.10	49.53	49.05	46.94	45.92	45.78	45.42
Town and city lots	19.70	20.21	20.14	20.31	20.12	19.97	19.62	18.92	19.89	21.74	22.74	23.38	23.94
Personal property	20.33	19.92	19.99	20.04	20.11	22.21	21.86	21.48	20.22	19.48	18.99	18.24	17.99
Net receipts of insurance companies	..	..	..	..	..	..	..	..	..	..	..	.05	.08
Railroads	11.11	11.46	11.41	11.34	11.09	11.08	10.06	9.65	10.38	11.39	11.93	12.02	11.93
Capital stock of corporations	.12	.15	.12	.10	.19	.29	.36	.42	.45	.45	.42	.52	.64
Total[1]	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
C. Entire State (102 Counties)													
Land and improvements	28.72	28.28	27.88	27.88	27.24	26.91	28.27	29.77	28.72	26.96	25.42	25.22	24.66
Town and city lots	40.32	40.99	42.09	42.01	41.43	40.98	40.72	39.43	40.19	42.48	44.96	45.36	46.39
Personal property	21.04	20.53	20.32	20.34	20.95	22.24	22.06	21.94	21.79	20.52	19.60	19.15	19.08
Net receipts of insurance companies	..	..	..	..	..	..	..	..	..	..	..	.03	.04
Railroads	8.71	8.93	8.62	8.72	8.54	8.56	8.09	7.93	8.15	8.66	8.66	8.83	8.41
Capital stock of corporations	1.21	1.27	1.09	1.05	1.03	1.30	.85	.92	1.15	1.38	1.36	1.41	1.42
Total[1]	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

[1] Total does not represent the addition of items in the column. Discrepancy cannot be localized in official reports.

Chart 9: Percentage Distribution of Taxable Property in Illinois

(National Industrial Conference Board)



$440.7 millions in 1921, showed a continuous decline to $393.6 millions in 1924, but rose to $414.5 millions in 1925. Throughout the remainder of the state there was a continuous decrease from $523.7 millions in 1920 to $385.7 millions in 1925. A part of this decrease in the value of personalty assessed during the past five or six years may be ascribed to a reduction of manufacturers' and merchants' inventories from the swollen values of the post war boom period. This explanation, however, cannot account for all of the decrease. There was a steady flow of personalty off the tax lists into concealment from the assessor.

The contrast between real estate on the one hand and personal property on the other in the two years 1913 and 1925 is all the more striking when it is realized that real estate is subject to quadrennial valuations (i. e., in 1914, 1919, 1923, 1927, etc.) and that the two years in question were therefore "off" years, whereas personal property assessments are made annually and are supposed to reflect current values. If real estate were required to be valued annually, as is personal property, the disparity in their respective percentages of increase would be much wider, to the advantage of real estate.

In 1922 the Federal Bureau of the Census estimated the *true* value of *tangible* personal property in Illinois at $7,461 millions. The following table shows the distribution of this property among the various classes of economic goods.

Property	Value
Livestock	$319,000,000
Farm implements and machinery	159,600,000
Manufacturing machinery, tools and implements	1,195,000,000
Motor vehicles	292,700,000
Agricultural products	279,500,000
Manufactured products	2,472,800,000
Imported merchandise	124,300,000
Mining products	68,300,000
Clothing, personal adornments, furniture, vehicles and kindred property	2,550,000,000
Total	$7,461,200,000

The assessed value of *all* personal property as determined by the taxing authorities in that year, including the values of all *intangible* property which was omitted from the Census Bureau figures, was $821 millions, equivalent to a full value

of $1,642 millions. Even after making liberal allowance for possible errors in the estimates of the Census Bureau and allowing for discrepancies due to differences in dates of assessment, exemptions, and so forth, it is patent that only a fraction of all personal property required by law to be listed is actually subjected to taxation and that the bulk of it escapes taxation altogether.

The discrepancy between the assessed value of personal property and its actual value is shown even more clearly when some specific forms of personal property are considered. Table 26 presents data on the number and value of automobiles registered in Illinois and the assessment of them for taxation purposes.

TABLE 26: COMPARISON OF THE NUMBER OF MOTOR VEHICLES REGISTERED IN ILLINOIS WITH THE NUMBER ASSESSED AND OF THEIR ASSESSED AND ESTIMATED VALUES, 1920 TO 1925

Year	Number		Value		Average Value per Vehicle	
	Assessed[1]	Registered[2]	Assessed[3]	Estimated	Assessed	Estimated
1920	295,160	568,924	$85,601,566	..	$290.02	..
1921	335,301	663,348	89,077,262	..	265.66	..
1922	354,865	781,974	69,500,478	$292,664,000[4]	195.84	$374.76
1923	388,171	969,331	68,320,556	..	176.00	..
1924	434,657	1,119,236	71,520,460	..	164.54	..
1925	490,844	1,263,177	74,761,810	..	152.30	..

[1] Illinois State Tax Commission reports.

[2] Figures from United States Department of Agriculture, Bureau of Public Roads.

[3] Illinois State Tax Commission reports.

[4] United States Bureau of the Census, "Wealth, Debt and Taxation: 1922—National Wealth," p. 22.

The table shows that in 1920, 295,160 automobiles were listed for taxation in Illinois, at an average value of $290.02 per car. In this year, 568,924 automobiles were registered in the state. In 1922 the number listed was 354,865, and the number registered 781,974. The average assessed value by this year had decreased to $195.84 per car, while the figures of the federal Census Bureau showed an average actual value of $374.76 per car. In 1925, 490,844 automobiles were listed, as against 1,263,177 registered, and the average as-

Table 27: Comparative Assessed Value of

(Source: The Illinois State Board of Equali

Classes of Property		1913	1914	1915	1916	1917
						Cook
1. Horses	Number	31,880	30,692	31,012	27,203	23,809
	Value	$771,774	$751,360	$785,233	$643,995	$547,212
	Average value	$24.21	$24.48	$25.32	$23.67	$22.98
2. Cattle	Number	29,331	30,073	29,048	28,490	27,567
	Value	$261,736	$285,469	$275,568	$273,208	$284,238
	Average value	$8.92	$9.49	$9.49	$9.59	$10.31
3. Mules and asses	Number	165	213	374	133	152
	Value	$3,451	$5,372	$3,268	$2,413	$3,234
	Average value	$20.97	$25.32	$8.74	$18.13	$21.28
4. Sheep	Number	1,711	1,411	1,195	1,406	1,064
	Value	$2,003	$1,862	$1,705	$1,416	$1,496
	Average value	$1.17	$1.32	$1.43	$1.01	$1.41
5. Hogs	Number	7,833	8,221	8,676	7,630	5,603
	Value	$15,903	$17,588	$17,750	$16,041	$14,800
	Average value	$2.03	$2.14	$2.05	$2.10	$2.64
6. Steam engines and boilers	Number	1,496	1,172	1,113	984	735
	Value	$331,376	$227,987	$317,242	$291,387	$246,779
	Average value	$222.19	$194.52	$285.03	$296.12	$335.70
7. Fire and burglar proof safes	Number	2,847	3,104	2,923	2,471	2,478
	Value	$37,030	$46,121	$43,643	$41,620	$38,552
	Average value	$13.01	$14.86	$14.93	$16.88	$15.56
8. Billiard, etc. tables	Number	868	910	845	588	738
	Value	$21,697	$32,030	$34,298	$17,200	$16,656
	Average value	$24.99	$35.20	$40.59	$29.25	$22.57
9. Carriages and wagons	Number	27,202	28,255	28,650	18,209	16,422
	Value	$1,179,109	$1,319,653	$1,509,817	$293,531	$298,259
	Average value	$43.35	$46.70	$52.70	$16.12	$18.16
10. Automobiles	Number	..	..	..	12,015	15,135
	Value	..	..	..	$1,525,067	$1,709,445
	Average value	..	..	..	$126.93	$112.95
11. Watches and clocks	Number	15,065	19,914	20,243	15,489	20,234
	Value	$86,772	$177,423	$113,972	$94,282	$105,518
	Average value	$5.76	$8.90	$5.63	$6.08	$5.21
12. Sewing and knitting machines	Number	12,243	16,823	15,283	14,683	17,798
	Value	$66,664	$71,535	$89,417	$68,857	$74,318
	Average value	$5.45	$4.25	$5.85	$4.69	$4.12
13. Pianos	Number	15,490	16,645	18,711	16,889	21,781
	Value	$480,623	$544,995	$564,224	$523,691	$627,399
	Average value	$31.03	$32.74	$30.15	$31.91	$28.81
14. Melodeons and organs	Number	..	..	..	..	..
	Value	..	..	..	..	..
	Average value	..	..	..	..	..
15. Franchises		$34,256	$10,546	$1,950	$9,977	$3,338
16. Annuities and royalties		..	41,748	42,496	..	..
17. Patent rights		35,890	..	..	24,272	14,758
18. Steamboats		19,668	45,046	21,723	42,021	24,983
19. Merchandise		18,065,835	16,146,884	20,749,241	19,052,261	20,549,984
20. Material and manufactured articles		4,192,967	2,571,529	2,982,186	3,999,974	2,365,722
21. Manufacturers' tools, implements, etc.		3,921,659	3,105,836	3,556,266	3,074,624	2,869,185
22. Agricultural tools, etc.		404,134	317,128	251,612	348,505	626,438
23. Gold and silver plate, etc.		214,551	144,072	174,487	272,956	183,068
24. Diamonds and jewelry		274,916	258,223	240,526	298,920	228,290
25. Money of bankers, brokers, etc.		4,018,522	2,657,142	3,979,659	2,541,118	2,732,734
26. Credits of bankers, brokers, etc.		1,985,650	17,093,667	4,117,832	2,528,423	2,535,323
27. Money of other than bankers, etc.		1,549,271	2,592,891	2,106,186	3,701,450	3,072,715
28. Credits of other than bankers, etc.		3,522,872	2,406,260	3,925,678	5,315,282	6,839,900
29. Bonds and stocks		2,596,325	6,650,027	6,024,269	5,699,349	7,881,628
30. Shares of capital stock of foreign companies		785,266	730,198	210,983	821,586	1,144,287
31. Pawnbrokers' property		229,061	67,581	548,555	34,371	95,196
32. Other corporate property		131,678	20,804,603	15,660,412	19,626,442	15,751,058
33. Bridge property		683	16,456	4,639	5,300	708
34. Property of eating houses, etc.		37,549	143,447	28,069	46,409	18,702
35. Household and office furniture		4,628,358	4,478,747	5,795,217	6,091,836	5,080,388
36. Investments in real estate, etc.		38,689	135,384	105,377	92,143	103,503
37. Grain of all kinds		103,909	459,699	327,921	286,930	456,894
38. Bank shares		44,625,761	47,129,426	46,121,312	44,432,438	54,979,701
39. Capital stock of corporations		..	..	..	..	..
40. Telegraph and telephone companies		..	..	..	..	..
41. All other personal property		137,298,006	98,259,469	111,336,927	108,883,872	121,235,490
Total		$231,973,614	$229,747,404	$232,069,660	$231,023,167	$252,761,899
Per capita		$88.56	$85.53	$84.30	$81.94	$87.58

[1] Property legally required to be assessed at one-third of true value up to and including 1918; thereafter

[2] The official total herein given does not represent the addition of the items in this column. Some items

Personal Property in Illinois, 1913–1925[1]

zation and the State Tax Commission)

1918	1919	1920	1921	1922	1923	1924	1925
County							
23,076	22,103	19,950	20,463	16,564	13,567	14,867	12,500
$562,587	$771,950	$691,964	$639,923	$520,476	$415,086	$360,435	$371,195
$24.38	$34.92	$34.68	$31.27	$31.42	$30.59	$24.24	$29.69
26,511	21,923	23,035	25,355	29,301	23,810	26,110	22,147
$300,096	$433,762	$440,332	$426,145	$385,438	$355,947	$345,651	$333,308
$11.32	$19.78	$19.11	$16.81	$13.15	$14.94	$13.24	$15.05
87	54	84	332	143	103	113	55
$1,868	$1,833	$2,001	$13,420	$2,882	$2,462	$2,095	$1,190
$21.47	$33.95	$23.82	$40.42	$20.15	$23.90	$18.54	$21.64
683	660	1,869	2,567	1,553	3,513	3,813	282
$1,208	$3,349	$7,273	$8,106	$3,562	$8,553	$7,992	$818
$1.77	$5.07	$3.89	$3.16	$2.29	$2.43	$2.09	$2.90
8,085	8,440	6,770	7,449	6,140	6,100	6,700	4,575
$25,892	$42,571	$34,660	$30,319	$25,533	$23,615	$17,628	$17,290
$3.20	$5.04	$5.12	$4.07	$4.16	$3.87	$2.63	$3.78
902	710	688	665	708	382	400	485
$247,874	$477,979	$360,789	$328,444	$495,920	$138,675	$181,200	$146,975
$274.80	$673.21	$524.40	$493.90	$700.45	$363.29	$453.00	$303.04
2,455	2,212	2,637	2,592	1,776	1,212	1,332	1,405
$41,530	$77,972	$61,336	$56,514	$49,849	$29,653	$26,147	$31,605
$16.92	$35.25	$23.26	$21.80	$28.07	$24.48	$19.70	$22.50
601	703	735	646	369	238	258	276
$16,509	$27,075	$29,168	$33,196	$12,532	$9,182	$6,524	$6,212
$27.47	$38.51	$39.68	$51.39	$33.96	$38.58	$15.29	$22.51
14,800	13,430	12,647	11,290	9,126	7,319	8,019	4,093
$259,950	$371,020	$292,673	$299,016	$234,625	$195,457	$161,317	$109,277
$17.56	$27.63	$23.14	$26.48	$25.71	$26.70	$20.12	$26.70
18,153	25,603	21,647	24,644	20,500	18,797	20,597	19,175
$2,195,956	$3,321,943	$4,247,820	$4,295,153	$2,889,477	$2,525,881	$2,215,785	$2,723,138
$120.97	$129.74	$196.23	$174.29	$140.95	$134.37	$107.63	$142.02
21,400	19,151	22,720	22,248	14,095	9,204	10,104	9,375
$120,053	$166,711	$198,877	$171,800	$108,469	$76,454	$61,687	$51,993
$5.61	$8.70	$8.75	$7.72	$7.70	$8.30	$6.15	$5.54
19,300	17,161	20,523	20,465	12,407	8,510	9,310	7,535
$86,405	$115,426	$154,983	$152,479	$90,106	$74,578	$56,593	$51,505
$4.48	$6.73	$7.55	$7.45	$7.26	$8.77	$6.08	$6.83
23,417	22,333	26,831	26,521	15,583	11,234	11,344	12,215
$700,410	$953,541	$1,141,253	$1,047,438	$604,617	$457,352	$306,718	$303,577
$29.91	$42.70	$42.53	$39.49	$38.80	$40.71	$27.04	$24.85
841	1,158	1,473	2,521	785	727	797	732
$17,326	$28,935	$41,497	$57,745	$20,538	$17,218	$14,841	$13,675
$20.60	$24.98	$28.17	$22.91	$26.16	$23.68	$18.62	$18.68
$17,300	$4,435	$19,498	$5,483	$24,611	$2,205	$2,067	$1,150
2,486	6,820	4,545	9,159	770	1,311	950	709
48,581	79,956	325,779	94,540	34,615	23,617	1,850	1,691
27,782	34,883	30,039	26,508	58,162	53,712	6,838	22,097
24,341,928	35,250,650	35,468,279	31,590,357	21,190,684	16,486,831	14,220,693	14,254,585
5,017,774	5,837,048	7,291,017	8,395,498	5,370,654	466,347	5,727,870	5,893,203
3,092,816	4,012,155	4,327,614	4,604,227	3,641,546	3,851,271	3,259,818	1,620,192
314,391	710,981	1,512,962	1,246,548	1,817,803	297,766	419,363	267,777
135,333	207,340	184,487	193,425	124,156	77,380	62,883	42,717
259,067	359,806	430,092	347,765	208,532	170,975	112,152	90,493
4,543,135	5,761,849	5,736,425	5,655,669	3,127,187	1,279,629	1,596,132	1,570,040
5,386,388	1,417,038	6,587,541	6,970,682	3,521,434	3,219,040	654,470	675,530
4,543,135	3,523,220	3,022,466	1,207,489	1,842,913	2,378,184	1,594,796	852,373
2,220,205	7,060,867	4,341,915	1,451,307	5,182,365	2,361,572	1,072,052	670,850
3,004,095	5,773,813	7,651,053	5,354,706	3,195,669	904,266	685,179	635,848
503,595	1,055,230	1,647,515	805,509	1,090,584	1,590,694	76,864	118,296
12,427	18,468	18,318	11,718	7,912	5,738	1,288	2,950
15,996,093	23,181,222	17,434,184	51,822,427	54,601,892	43,685,284	47,526,843	46,043,836
17,412	16,143	8,249	6,323	2,838	..	730	225
32,390	22,780	23,564	30,263	18,795	9,901	8,757	8,098
7,535,943	8,280,844	11,380,214	11,456,911	10,388,167	10,341,009	11,089,170	9,554,300
58,746	202,343	43,351	55,098	21,310	650	14,525	9,084
266,548	1,115,725	426,532	209,473	293,219	213,796	180,393	25,013
59,572,528	93,730,310	108,612,285	110,471,305	124,470,846	122,511,095	123,377,270	102,655,898
..	..	..	..	..	..	..	..
..	..	..	..	..	..	..	238
119,181,749	194,392,092	181,392,196	191,082,414	148,627,680	176,167,779	178,182,513	223,558,635
$260,709,511	$398,850,085	$405,624,746	$440,664,502	$394,308,368	$394,730,165[2]	$393,640,079	$412,737,585
$88.29	$132.08	$131.46	$138.90	$121.72	$118.96	$115.55	$118.52

at one-half of true value.

appear to have been understated or omitted in the official tabulation.

Table 27: Comparative Assessed Value of Per

(Source: The Illinois State Board of Equali

Classes of Property		1913	1914	1915	1916	1917
						Entire State
1. Horses	Number	1,307,160	1,264,634	1,246,938	1,187,052	1,157,381
	Value	$35,199,336	$33,056,480	$30,838,085	$29,302,320	$28,914,594
	Average value	$26.93	$26.14	$24.73	$24.68	$24.98
2. Cattle	Number	1,810,436	1,815,384	1,878,116	1,987,880	2,026,944
	Value	$17,690,950	$18,533,411	$18,967,290	$20,691,902	$24,540,116
	Average value	$9.77	$10.21	$10.10	$10.41	$12.11
3. Mules and asses	Number	157,807	153,636	166,701	166,058	158,939
	Value	$4,650,350	$4,375,244	$4,294,497	$4,192,955	$4,227,900
	Average value	$29.47	$28.47	$25.76	$25.25	$26.60
4. Sheep	Number	402,317	305,270	258,880	286,737	295,069
	Value	$489,992	$361,630	$317,703	$383,579	$594,994
	Average value	$1.22	$1.18	$1.23	$1.35	$2.02
5. Hogs	Number	2,096,016	2,068,621	1,986,125	1,752,491	1,798,386
	Value	$5,771,095	$5,375,322	$4,529,239	$4,577,039	$6,528,339
	Average value	$2.75	$2.60	$2.28	$2.61	$3.63
6. Steam engines and boilers	Number	20,619	20,770	22,790	22,052	22,436
	Value	$3,201,281	$3,032,560	$3,232,445	$3,067,765	$3,157,698
	Average value	$155.26	$146.00	$141.83	$139.12	$140.74
7. Fire and burglar proof safes	Number	18,209	17,975	18,666	17,340	17,073
	Value	$243,157	$243,175	$247,335	$219,960	$222,234
	Average value	$13.35	$13.52	$13.25	$12.69	$13.02
8. Billiard, etc. tables	Number	6,021	6,211	6,318	5,997	6,656
	Value	$128,136	$137,663	$141,764	$117,670	$123,388
	Average value	$21.28	$22.16	$22.44	$19.62	$18.54
9. Carriages and wagons	Number	658,118	560,186	574,008	473,202	448,403
	Value	$8,449,891	$9,554,873	$11,261,136	$3,331,138	$3,100,899
	Average value	$12.84	$17.05	$19.62	$7.04	$6.92
10. Automobiles	Number	..	..	..	119,856	166,645
	Value	..	..	..	$11,004,292	$14,173,862
	Average value	..	..	..	$91.81	$85.05
11. Watches and clocks	Number	308,685	293,367	306,853	271,652	268,112
	Value	$669,555	$716,052	$666,507	$589,102	$624,344
	Average value	$2.17	$2.44	$2.17	$2.17	$2.33
12. Sewing and knitting machines	Number	280,338	272,213	286,331	258,297	252,838
	Value	$741,422	$700,399	$765,181	$679,800	$661,141
	Average value	$2.64	$2.57	$2.68	$2.63	$2.61
13. Pianos	Number	152,456	160,244	172,080	155,076	181,027
	Value	$4,027,378	$4,168,397	$4,321,557	$3,651,748	$4,349,777
	Average value	$26.42	$26.01	$25.11	$23.55	$24.03
14. Melodeons and organs	Number	42,167	37,730	37,090	47,794	29,368
	Value	$206,126	$170,255	$169,705	$671,797	$161,436
	Average value	$4.89	$4.51	$4.58	$14.06	$5.50
15. Franchises		$133,956	$156,169	$105,871	$113,145	$92,796
16. Annuities and royalties		120,251	190,338	72,745	20,520	19,364
17. Patent rights		70,845	115,654	197,743	36,364	27,429
18. Steamboats		235,032	178,624	205,132	201,941	174,377
19. Merchandise		42,822,263	40,455,167	44,754,829	43,037,706	45,740,703
20. Material and manufactured articles		9,655,782	8,207,469	8,274,112	9,577,234	8,314,979
21. Manufacturers' tools, implements, etc.		9,540,142	8,766,380	9,294,490	9,001,254	8,916,944
22. Agricultural tools, etc.		4,619,869	4,563,804	4,487,663	4,503,370	5,018,003
23. Gold and silver plate, etc.		308,081	241,395	272,332	371,254	284,700
24. Diamonds and jewelry		587,601	601,285	610,489	660,246	627,288
25. Money of bankers, brokers, etc.		16,032,313	13,804,811	13,365,027	12,484,697	13,972,381
26. Credits of bankers, brokers, etc.		8,927,186	23,147,505	9,893,142	8,236,945	8,833,194
27. Money of other than bankers, etc.		35,115,769	33,424,371	33,560,345	36,233,618	34,799,371
28. Credit of other than bankers, etc.		37,850,558	37,078,767	41,575,686	38,194,460	38,593,093
29. Bonds and stocks		6,474,056	10,842,828	10,576,904	9,425,565	12,985,819
30. Shares of capital stock of foreign companies		1,948,374	1,851,018	1,364,852	1,922,433	2,325,393
31. Pawnbrokers' property		314,123	145,422	606,699	68,934	117,975
32. Other corporate property		3,554,014	24,505,170	19,239,280	25,112,315	20,239,589
33. Bridge property		155,427	190,320	162,660	114,802	119,016
34. Property of eating houses, etc.		537,163	740,036	609,816	470,406	417,028
35. Household and office furniture		18,481,105	18,248,739	19,633,107	20,031,922	19,549,641
36. Investments in real estate, etc.		923,119	1,262,484	1,209,300	1,210,810	939,609
37. Grain of all kinds		12,393,907	9,228,428	10,263,513	12,812,214	10,330,429
38. Bank shares		61,196,473	63,447,536	64,476,036	62,519,666	74,200,675
39. Capital stock of corporations		..	..	..	..	..
40. Telegraph and telephone companies		..	..	..	..	..
41. All other personal property		156,157,636	122,305,160	133,256,132	130,112,082	142,038,785
Total		$509,623,714	$504,124,341	$507,820,349	$508,954,970	$540,059,303
Per capita		$86.11	$83.94	$83.35	$82.35	$86.17

[1] Property legally required to be assessed at one-third of true value up to and including 1918; thereafter at

[2] The official total herein given does not represent the addition of the items in this column. Some items

SONAL PROPERTY IN ILLINOIS, 1913–1925[1]—(*Continued*)

zation and the State Tax Commission)

1918	1919	1920	1921	1922	1923	1924	1925
(102 Counties)							
1,153,467	1,128,315	1,061,289	992,783	913,948	858,221	799,036	772,602
$29,108,161	$40,208,498	$36,647,413	$29,262,241	$23,436,742	$20,321,891	$17,556,627	$16,916,523
$25.24	$43.32	$34.53	$29.47	$25.64	$23.67	$21.97	$21.89
2,089,828	2,146,839	2,058,703	1,881,956	1,781,505	1,799,959	1,713,629	1,661,324
$28,200,363	$49,468,568	$44,652,069	$29,461,753	$25,552,213	$25,146,668	$23,422,480	$23,538,751
$13.49	$23.05	$21.68	$15.65	$14.34	$13.97	$13.66	$14.16
148,340	147,781	145,152	154,610	157,903	154,133	143,958	138,184
$4,331,722	$6,218,162	$6,005,332	$5,027,287	$4,235,609	$3,935,946	$3,403,364	$3,315,668
$29.20	$42.08	$41.37	$32.52	$26.82	$25.53	$23.64	$23.99
405,093	495,041	480,265	427,293	366,453	357,865	355,993	378,139
$1,146,102	$2,203,871	$1,979,771	$836,242	$780,601	$788,907	$818,746	$972,022
$2.83	$4.45	$4.12	$1.95	$2.13	$2.20	$2.29	$2.57
2,139,391	2,324,118	2,214,539	1,974,952	1,959,644	2,616,907	2,255,485	1,838,015
$10,114,211	$17,944,542	$13,641,872	$8,607,223	$8,743,203	$9,075,291	$6,739,314	$7,418,604
$4.73	$7.72	$6.16	$4.36	$4.46	$3.46	$2.98	$4.03
24,488	25,726	42,308	50,942	48,721	49,378	48,814	50,747
$3,512,742	$6,015,666	$7,528,690	$8,079,588	$7,093,960	$6,356,499	$6,630,764	$7,153,072
$143.45	$233.83	$177.94	$158.60	$145.60	$128.73	$135.83	$140.95
16,701	16,536	17,613	16,159	14,810	13,844	13,447	13,731
$226,062	$371,847	$356,996	$303,980	$276,877	$258,441	$230,645	$233,367
$13.34	$22.49	$20.26	$18.81	$18.69	$18.66	$17.15	$16.99
5,893	6,127	6,480	7,007	6,799	6,056	6,167	5,927
$118,220	$181,485	$218,336	$224,469	$197,256	$178,505	$168,590	$160,036
$20.06	$29.62	$33.69	$32.03	$29.01	$29.47	$27.33	$27.00
438,421	421,239	402,712	374,194	344,093	323,453	301,848	282,825
$3,251,562	$5,106,323	$5,040,570	$4,447,756	$3,736,389	$3,438,025	$3,073,341	$2,850,658
$7.42	$12.12	$12.51	$11.89	$10.85	$10.62	$10.18	$10.07
223,170	258,009	295,160	335,301	354,865	388,171	434,657	490,844
$19,866,063	$33,665,485	$42,800,783	$44,538,631	$34,750,239	$34,160,278	$35,760,230	$37,380,905
$89.02	$130.48	$145.00	$132.83	$97.92	$88.00	$82.27	$76.15
270,972	259,159	249,784	242,213	206,356	189,424	170,495	169,644
$622,088	$940,373	$1,001,586	$948,806	$799,398	$724,789	$635,912	$654,640
$2.22	$3.63	$4.00	$3.92	$3.87	$3.82	$3.72	$3.85
254,773	249,145	250,402	250,841	224,933	218,404	202,107	203,449
$714,189	$1,122,415	$1,214,839	$1,227,330	$1,051,213	$1,029,703	$936,101	$951,473
$2.80	$4.50	$4.85	$4.89	$4.67	$4.71	$4.63	$4.67
188,617	198,899	203,088	210,347	196,850	191,026	187,575	191,254
$4,671,326	$7,514,826	$7,786,098	$7,771,855	$6,604,158	$6,155,306	$5,493,110	$5,262,696
$24.77	$37.78	$38.33	$36.95	$33.54	$32.22	$29.28	$27.51
30,043	36,895	68,652	91,734	98,203	104,651	102,044	107,149
$209,976	$470,872	$1,275,861	$1,633,605	$1,580,836	$1,575,137	$1,438,110	$1,353,503
$6.99	$12.76	$18.58	$17.81	$16.09	$15.05	$14.09	$12.63
$79,074	$130,581	$136,224	$87,019	$144,637	$112,568	$89,317	$79,793
26,871	38,863	48,632	52,267	26,377	25,516	31,445	11,221
58,161	100,895	438,024	108,100	67,961	68,523	34,344	37,413
184,682	264,564	249,836	212,398	232,097	219,821	140,119	219,084
51,762,151	80,675,938	87,115,808	80,317,516	65,841,715	61,449,620	57,918,825	57,298,033
12,352,045	18,133,494	19,051,807	21,236,864	17,424,246	16,036,056	17,033,370	17,405,966
9,748,164	14,029,446	15,963,305	16,167,007	14,496,366	15,444,288	15,410,206	14,888,349
5,567,138	10,384,782	12,422,306	11,520,765	10,728,991	8,611,659	8,121,020	8,180,781
232,929	370,240	356,009	360,155	295,361	233,130	220,955	198,446
681,301	1,090,656	1,169,003	1,073,538	849,213	783,405	723,167	689,336
17,753,576	28,042,271	24,117,817	20,063,375	17,336,341	12,935,718	12,495,218	12,079,189
12,849,327	12,359,878	15,459,883	17,208,991	10,845,475	9,576,076	6,695,531	6,394,141
39,196,990	55,759,206	46,163,542	38,092,530	32,316,997	29,182,285	25,273,547	22,665,931
36,632,932	55,264,210	66,030,568	58,280,099	57,820,509	47,080,779	39,921,482	34,154,921
7,787,038	12,547,463	14,569,150	12,472,352	9,434,972	6,844,016	6,100,753	5,145,921
2,339,545	3,220,169	3,456,048	2,734,066	2,691,020	3,344,334	1,543,149	1,675,937
145,897	39,169	284,902	50,881	84,611	27,200	45,025	50,223
20,741,147	31,548,925	25,351,810	60,394,999	63,380,682	51,620,685	55,607,405	52,865,992
94,713	197,060	120,523	379,517	808,059	264,918	300,794	204,858
433,484	508,900	305,748	366,661	344,770	520,090	335,587	341,128
22,860,711	34,139,746	38,628,660	40,110,400	38,679,664	38,742,636	40,111,626	39,232,136
845,966	1,626,865	1,093,629	1,545,394	1,411,989	1,395,973	1,354,436	1,430,001
19,754,320	28,024,513	27,565,241	15,809,571	11,436,233	10,000,668	10,865,783	12,628,925
75,361,488	119,981,955	136,795,714	140,179,216	152,770,775	151,408,598	151,452,289	127,977,324
..	..	3,063,656	2,863,384	2,686,870	4,224,822	3,406,047	3,605,059
..	..	7,549,902	7,740,902	7,789,783	9,110,743	9,199,927	10,717,385
140,407,284	226,729,592	211,658,804	223,678,732	182,210,277	209,430,019	211,038,546	256,072,387
$583,989,721	$906,642,314	$929,316,767	$915,477,465	$820,994,685	$801,839,532	$781,777,247	$794,411,798
$91.90	$140.75	$142.38	$137.52	$121.74	$116.95	$111.89	$112.02

one-half of true value.

appear to have been understated or omitted in the official tabulation.

sessed value was $152.30 per car. Several reservations must be made in comparing figures on the registration and on the assessment of automobiles. The assessment date is April first. The registration period is from January through December. A certain number of cars may be registered in the early part of the year and scrapped before April first. Every sale of a used car swells the number registered; so do all purchases of new cars after April first. Registration figures are thus not altogether accurate indices of the number of cars actually within the state on assessment date. However, the disproportion between cars registered and cars assessed is so extreme that it is evident that many must escape listing.

Table 27 shows the equalized assessment values for all classes of personal property from 1913 to 1925. An examination of the assessment rolls discloses some very curious results. For example, there are approximately one-half the number of watches and clocks used by the people of Illinois today as in 1913, despite the continued increase in population and growing popularity of watches, and their average value has been slowly declining, until in 1925 it was as low as $7.70 on a 100% valuation basis. The assessment figures would lead one to believe that there are far fewer pianos, sewing machines, fire and burglar proof safes, etc. in use today than ten or eleven years ago. The average full value of sewing and knitting machines in 1925 is given as $9.34 and that of pianos as $55.02. The values reported for gold and silver plate, diamonds and jewelry, money and credits of bankers and brokers, bonds and stocks, and similar items have been steadily declining in the face of common evidence to the contrary. Gold and silver plate and diamonds and jewelry owned by the people of Illinois were assessed at the absurdly low figure of approximately $1.8 millions for the entire state in 1925, although data of the Bureau of Internal Revenue indicated that *new* jewelry, watches and clocks sold in the state by retailers amounted to approximately $45.5 millions in the fiscal year 1924.[1] It is interesting to note that in 1925 bonds and stocks owned by individuals in the state were

[1] Total taxes collected, at 5% of value, were $2,276,023: Annual Report of the Commissioner of Internal Revenue, 1924, p. 89.

valued at $10.3 millions on a 100% basis, as compared with $19.4 millions in 1913 and $29.1 millions in 1920.

Assessment of Livestock

The number of farm animals, assessed for taxation purposes is usually somewhat below that reported by the United States Department of Agriculture, but a far greater disparity is disclosed when values, both in the aggregate and per head

TABLE 28: COMPARISON OF TOTAL VALUE AND VALUE PER HEAD OF FARM LIVESTOCK IN ILLINOIS AS ASSESSED AND AS REPORTED BY THE UNITED STATES DEPARTMENT OF AGRICULTURE, 1920 TO 1924

Year	Number (In thousands)		Total Value (In thousands)		Value per Head	
	As Assessed for Taxation[1]	As Reported by U. S. Department of Agriculture[2]	As Assessed for Taxation[1]	As Reported by U. S. Department of Agriculture[2]	As Assessed for Taxation[1]	As Reported by U. S. Department of Agriculture[2]
			Cattle			
1920	2,059	2,788	$89,304	$193,762	$43.36	$69.50
1921	1,882	2,515	58,924	117,695	31.30	46.80
1922	1,781	2,413	51,104	92,346	28.68	38.30
1923	1,800	2,465	50,293	105,533	27.94	42.80
1924	1,714	2,425	46,845	107,162	27.32	44.20
1925	1,661	2,345	47,077	104,118	28.32	44.40
			Swine			
1920	2,215	4,639	$27,284	$95,100	$12.32	$20.50
1921	1,975	4,835	17,214	66,240	8.72	13.70
1922	1,960	4,425	17,486	46,462	8.92	10.50
1923	2,617	5,750	18,151	71,875	6.92	12.50
1924	2,255	5,625	13,479	64,260	5.96	10.10
1925	1,838	4,725	15,836	76,412	8.06	13.60
			Sheep			
1920	480	638	$3,960	$8,039	$8.24	$12.60
1921	427	561	1,672	3,871	3.90	6.90
1922	366	516	1,561	2,735	4.26	5.30
1923	358	516	1,578	4,076	4.40	7.90
1924	356	568	1,637	4,658	4.58	8.20
1925	378	694	1,944	7,218	5.14	10.40
			Horses			
1920	1,061	1,297	$73,295	$126,252	$69.06	$97.00
1921	993	1,232	58,524	104,786	58.94	85.00
1922	914	1,190	46,873	82,659	51.28	69.00
1923	858	1,150	40,644	81,621	47.34	71.00
1924	799	1,090	35,113	74,613	43.94	68.00
1925	773	1,032	33,833	71,025	43.78	69.00

[1] As of April first. Full value.

[2] As of January first. Yearbooks of the Department of Agriculture.

according to the assessment, are compared with the corresponding figures of the Department of Agriculture. Table 28 shows the number, value and value per head for four classes of livestock, as reported in the Illinois assessment rolls and by the United States Department of Agriculture, while Table 29 shows a comparison of assessed valuations per head of livestock in Illinois with those in neighboring states.

TABLE 29: COMPARISON OF ASSESSED VALUE PER HEAD OF LIVESTOCK, ILLINOIS AND NEIGHBORING STATES, 1923 TO 1925

Livestock	State	Value per Head		
		1923	1924	1925
Horses	Ohio	$67.35	$59.98	$59.31
	Iowa	63.62	57.61	..
	Indiana	..	..	$62.00
	Illinois	47.34	43.94	43.78
Cattle	Ohio	34.65	33.72	34.55
	Iowa	31.71	29.90	..
	Indiana	..	..	35.20
	Wisconsin	44.00	..	..
	Illinois	27.94	27.32	28.32
Sheep	Ohio	6.52	6.90	7.45
	Iowa	5.00	4.00	..
	Indiana	..	..	9.00
	Wisconsin	6.00	..	..
	Illinois	4.40	4.58	5.14
Hogs	Ohio	8.91	7.14	9.14
	Iowa	8.09	7.09	..
	Indiana	..	..	10.52
	Wisconsin	13.00	..	..
	Illinois	6.92	5.96	8.06
Horses, mules and asses (combined)	Ohio	67.64	60.36	59.69
	Iowa	63.81	57.81	..
	Indiana	..	..	63.42
	Wisconsin	90.00	..	..
	Illinois	46.54	44.45	44.43

During the last five years for which comparative data are available the total value of livestock on farms and the average values, as assessed for taxation on a 100% basis, have been considerably below those reported by the Department of Agriculture. Furthermore, the full assessed values per head as reported in Illinois are considerably lower than in

neighboring states, as indicated in Table 29. While there may, of course, be differences in the quality and breed of herds which would affect their value, it is not believed that state averages should differ so widely as appears from a glance at the comparative figures contained in this table.

The average values actually assessed and the degree of underassessment vary from county to county; and although the State Tax Commission is required by law to equalize property as assessed locally,[1] it has in actual practice failed to perform its duty and has accepted the figures as submitted by the local assessors.[2] Thus, the average assessed value of horses in 1925 ranged from $10 in Pulaski County to $35.02 in Bureau County; cattle, from $8.85 in White County to $21.23 in Kane County; hogs, from $1.85 in Richland County to $5.70 in Whiteside County; steam engines, including boilers, from $28.87 in Clark County to $1,433.98 in Winnebago County; automobiles, from $32.51 in Clark County to $142.02 in Cook County; watches and clocks, from $1.33 in White County to $20.63 in Kankakee County; pianos, from $12.10 in Clark County to $61.32 in Calhoun County; melodeons and organs, from $6.26 in Wayne County to $21.39 in Putnam County. If the local assessor is negligent or wilfully understates the value of personal property submitted to him by its owners, there is to all intents and purposes no state agency at the present time that undertakes or attempts to correct the situation and effect the equality of treatment contemplated in the organic law of the state.

Assessment of Corporate Stock or Excess

Another important class of personal property is the "corporate excess," or capital stock of corporations and associations. Banks are the only corporate entities exempt from a tax on their corporate excess, but their shareholders pay the equivalent of it in their individual capacities, as indicated above. Companies and associations organized for purely manufacturing or mercantile purposes, for the mining or sale of coal, for printing, for publishing newspapers, or for im-

[1] Laws of 1919, p. 718, Sec. 20.

[2] Annual Report, 1923, pp. 24–27, and 1924, pp. 24–27.

proving or breeding of livestock were formerly exempted from this tax. This provision was declared unconstitutional in 1905,[1] and these corporations are now subject to the corporate excess tax. The corporate excess of these companies, however, is assessed locally. The State Tax Commission assesses the value of the corporate excess of all other companies and associations incorporated under the laws of Illinois.

All corporations subject to the tax are required to make out and deliver to the assessor a sworn statement as to the following items: (1) name and location of company or association; (2) amount of capital stock authorized and the number of shares into which such capital stock is divided; (3) amount of capital stock paid up; (4) market value, or if no market value, then the actual value of the shares of stock; (5) total amount of indebtedness, except the indebtedness for current expenses, excluding the amount paid for the purchase or improvement of property; and (6) assessed valuation of all *tangible* property. If a corporation or association refuses to make this return, it is the duty of the assessor to make such return from the best information which he can obtain. The law provides, however, no special penalty for failure on the part of a corporation or its officers to file a return for capital stock taxation.

In proceeding to assess the capital stock of corporations, the State Tax Commission is empowered in the act creating it "to make such research and investigation as to the properties of corporations and the true values of the franchise and properties of all corporations incorporated under the laws of this State . . . as will enable it to ascertain the fair cash value of the capital stock, including the franchise, of such corporations as are assessed by it and to obtain such further data and information upon which general rules and regulations may be based."[2] The general rule, in determining the "corporate excess," is to add the value of the stock and debts together, and to deduct therefrom the value of the tangible property. The resulting net balance is taxable.[3]

[1] See above, pp. 74–75. [2] Laws of 1919, p. 9; Revised Statutes, Ch. 24½, Sec. 3.

[3] While the capital stock of foreign corporations is implicitly exempt from the corporate excess tax, a consolidated company, formed by the consolidation of a domestic with a foreign company, is subject to the tax on corporate excess; *Keokuk Bridge Co. v. People*, 161 Ill. 142.

This procedure has been repeatedly upheld by the courts.[1] The corporate excess is required to be listed and taxed where the principal office or place of business is located, or in the absence of either, where business is transacted. Where the property of a corporation has been assessed as a whole to the corporation, the individual shareholders are no longer assessable upon their respective interests in the corporation.[2] It follows, therefore, that since foreign corporations are not subject to the capital stock tax, residents of the state owning shares in a foreign corporation must include the same in their return of personal property which becomes taxable for state and local purposes.

The purpose of vesting the assessment of the capital stock or "corporate excess" of certain corporations and associations in the State Tax Commission was to place the evaluation of intangible property in the hands of a central authority that was likely to handle the matter more efficiently and equitably than the local assessor and thus insure uniformity. The assessment of both tangible and intangible property of individuals (and of manufacturing, mercantile, mining, printing, publishing and livestock-breeding corporations) is left in the hands of the local assessor, as well as the assessment of the *tangible* property of corporations and associations (other than the exceptions above noted). As interpreted by the courts, *tangible* property is intended to embrace such property as real estate, machinery, tools, implements, goods, wares and merchandise, but not notes, bonds, credits or evidence of an interest in property or evidences of debt, which are assessable by the State Tax Commission.[3]

It has been held that the State Board of Equalization, which was the predecessor of the present State Tax Commission, had no power to assess the capital stock of a mercantile corporation even though the local assessor, whose duty it is to supervise and assess the capital stock of this excepted group of corporations, failed to perform his duty.[4] Thus, the

[1] *Ottawa Glass Co. v. McCaleb*, 81–556; *Ill. Cent. R. R. Co. v. Carr*, 302 Ill. 172, etc.

[2] Revenue Act of 1872, Sec. 3, clause 4, subsection 3, as interpreted in *Central Ill. Public Service Co. v. Swartz*, 284 Ill. 108.

[3] *National Reserve Insurance Company v. Shipton*, 314 Ill. 472.

[4] *People v. Lewy Brothers Company*, 250 Ill. 613.

central taxing body has no means of overcoming the laxity of local assessors in the field of capital stock assessment in which the latter have jurisdiction. Furthermore, in assessing capital stock of corporations over which its jurisdiction extends, the State Tax Commission has no power to take into consideration whether or not the tangible property of a corporation has been assessed too low by local assessors.[1] Where a corporation's debts have absorbed all its property, taxation was held to have been properly based upon the value of its debt, other than current expenses.[2]

Extent of Capital Stock of Corporations Assessed for Taxation

The greatest number of corporations assessed by the central tax supervising body for capital stock or corporate excess purposes was reached in 1920. Between 1920 and 1924 the number of corporations assessed by the State Tax Commission decreased from 2,966 to 2,127. In 1925 the number was 2,512. About one-half of this decline was contributed by Cook County, and the remainder was distributed throughout the rest of the state. On the surface, it would certainly appear that the decline in number of corporations (other than mining, mercantile, manufacturing, printing, newspaper and certain agricultural corporations that are assessed locally by the district assessors and banking institutions which are exempt) having some intangible property over and above deductions allowed by law should not have been so great as indicated in the figures contained in Table 24. Inquiry at the offices of the State Tax Commission elicited the information that blanks estimated between 5,000 and 6,000 are sent out to corporations that would be subject to capital stock taxation by the Commission,[3] but this number appears to be only a portion of the total number liable to report. In 1924, the United States Bureau of Internal Revenue showed a total of 8,002 corporations reporting net income in Illinois which it would seem should file a statement with the Commission.[4] From these facts, it is clear that somewhat over

[1] *People v. St. Louis Bridge Company*, 290 Ill. 307.

[2] *Keokuk Bridge Company v. People*, 161 Ill. 143.

[3] Since 1911, no data have been published as to the corporations that filed a capital stock tax return but were not required to pay any tax.

[4] U. S. Bureau of Internal Revenue, "Statistics of Income, 1924," pp. 150–151.

one-fourth of the total number of the corporations that should file a statement fail to make their appearance at all on the capital stock tax rolls. In all probability the larger and better known corporations, particularly railroads and public utilities whose finances are matters of public record, are fairly well covered, and it is likely that the smaller-sized corporations escape the tax, largely as the result of a wholly inadequate staff at the Tax Commission's office which cannot handle this administrative task, and because of general administrative inertia and indifference of long standing.

The Revenue Act of 1872 exempted manufacturing, mining, mercantile, printing, newspaper and certain agricultural corporations from capital stock assessment, but this provision was declared unconstitutional by the Supreme Court as in violation of the principle of uniformity.[1] In 1905, by an amendment to the Revenue Law, the local assessors were charged with the duty of making the capital stock assessment of these corporations, but no idea as to the efficacy with which they have performed this duty appears to have been possible until 1920, when for the first time the capital stock of corporations was separately itemized county by county in the reports made to the central tax supervising body. The total excess of capital stock and indebtedness over and above tangible property of manufacturing, mining, mercantile, printing, newspaper and stock-breeding corporations, as assessed for the entire state on a 100% basis, was only $6.2 millions in 1920, $5.8 millions in 1921, $5.4 millions in 1922, $8.4 millions in 1923, $6.8 millions in 1924 and $7.2 millions in 1925. Since the capital stock tax, as interpreted by the State Board of Equalization and State Tax Commission and as repeatedly upheld by the courts, is a tax on all the *intangible* property of the corporation, the absurdity of the assessors' figures is all the more striking and apparent. These same corporations reported a net income of roughly $400 millions in 1924,[2] yet the assessors' returns would make it appear that the intangible property of these corporations, represented largely by net current assets (excluding mer-

[1] *Consolidated Coal Co. v. Miller*, 236 Ill. 149.

[2] As far as can be gathered from the classification employed in U. S. Bureau of Internal Revenue, "Statistics of Income, 1924," pp. 150–151.

chandise, but including cash, deposits in banks, and receivables), was only $6.8 millions or less than 2% of their combined net earnings.

In 1914, the Committee on Assessment of Capital Stock of Corporations of the State Board of Equalization used the following language in commenting upon this state of affairs:

> ". . . your committee would further report that owing to the late decisions of the Supreme Court, a large number of corporations formerly assessed by this board have not been assessed by local boards in their respective counties as required by law, thereby escaping the payment of their just proportion of taxes, and your committee would therefore recommend that this board petition the next General Assembly to so amend the Revenue Law that all corporations of this state file schedules of their corporate properties with this board for assessment so that they may be required to pay their just proportion of taxes."[1]

Nothing was, however, accomplished by this plea, and the situation remains today in as unsatisfactory a state as it was in 1914.

The assessors in Cook County apparently do not assess the capital stock of taxable corporations at all, although this failure in the performance of their duties is in direct contravention of the law, and the result is that these corporations escape the capital stock tax altogether. As stated above, there is no legal remedy at hand for the State Tax Commission to enforce this feature of the tax law, even if it were disposed to act in this manner. Furthermore, the law provides at present no penalty for failure on the part of any corporation to file a capital stock tax return, although the local assessors are required in such eventuality to proceed to make their own valuation from the best information in their possession.

From this recital of facts it is therefore clear that the corporate excess or capital stock tax of corporations not only does not reach certain classes of corporate enterprises, but its assessment presents problems of the first magnitude and that no genuine or organized effort to solve it has been made by those who are primarily responsible for the successful and equitable administration of the tax law.

[1] Annual Report of State Board of Equalization, 1914, p. 28.

Economics of the Present System of Personalty Taxation

The objections to the system of taxation of personal property as now administered in Illinois are many and far-reaching. The average rate of general property tax in 1924 was $7.36 per $100 of assessed valuation for the entire state and $9.06 per $100 in Cook County. Inasmuch as property is required by law to be assessed at 50% of its true value, these tax rates, based on full value, were $3.68 and $4.53 respectively. It is clear that the tax would be confiscatory on the greater part of personalty with a fixed rate of income if it were drawn into the assessor's net.

The effect of these tax rates would be particularly severe on the average man's principal source of thrift. The annual interest on a $100 savings deposit is about $4, and if savings accounts were actually listed for taxation, the general property tax in Cook County would more than confiscate this income, while in the state as a whole the tax would be almost equal to the annual interest derived from them. In the case of other fixed income securities, such as bonds, notes. which yield a higher rate of income than savings accounts, the expropriation by state and local taxing authorities would be less in proportion, although still considerable in amount.

Table 30 shows the tax rates per $100 of full valuation in certain suburbs of Chicago, together with a calculation of the deduction from income which would result if this tax rate were paid on the par value of securities.

Table 30: Percentage of Net Income from Investments, Bearing Given Rates of Return, Taken by Taxes in Certain Chicago Suburbs, 1925

Chicago Suburb	Tax Rate on $100 of True Value	Per Cent of Income Taken by Taxes from Investment Yielding		
		6%	5%	4%
Cicero	$6.485	106%	130%	162%
Glencoe	6.27	104	125	157
Des Plaines	6.265	104	125	157
Oak Park	5.91	99	118	148
Bellwood	5.89	98	117	147
Brookfield	5.765	96	115	144
Forest Park	5.705	95	114	142
Maywood	5.665	94	113	141
Arlington Hgts.	5.18	86	104	129

The holder of a 6% bond living in Cicero would pay in taxes more than the income yielded by it if that bond were reported for taxation. The owner of a savings deposit yielding 4% interest would find that the state was making him pay over 2% annually for the bare privilege of accumulating his savings. In the other suburbs the situation would not be quite so extreme, but it is sufficiently grave to deserve consideration. Theoretically, therefore, the general property tax rate applied to fixed-income securities and non-income-producing[1] personal property, such as jewelry, watches, furniture, etc., generates a condition that borders on the intolerable.

In actual practice, however, this situation is only infrequently found; but to the extent that it exists, it gives rise to serious problems of equity. The fundamental principles of uniformity and equality of treatment, enjoined by the organic law of the state, are continually being violated. The personal property tax statute is being evaded on a wholesale scale. Often where personal property is correctly listed for taxation purposes, the credits and deductions allowed by law under oath are greatly overstated, so that little or none of the property becomes taxable. It is a comparatively simple matter artificially to create debts as of the assessment date. Furthermore, the average local assessor is not able to assess correctly all personal property that comes under his official observation with the result that, as a rule, assessments do not accurately reflect current values. On the other hand, there may be persons who honestly list all their personalty; there are also instances where circumstances compel full reporting. These few unfortunate individuals bear the brunt of the burden, while the majority escape it altogether or carry less than their share. Those who honestly report personal property are thus penalized by being subject to a higher rate of taxation than would be the case if the assessment base were widened, and by paying the full amount of taxes as contemplated in the statute. The inequalities and lack of uniformity to which the administration of the law gives rise constitute deficiencies that weaken the entire system.

The situation has been all the more aggravated by the

[1] Tangible rather than psychic income is here considered.

failure of the State Tax Commission in recent years to perform one of its principal duties, namely, equalization of assessments. Since 1922 the Commission has accepted as final the figures submitted by the county boards through the county clerks, although it is common knowledge that no two assessors agree on the value of a given piece of personal property and that hence their assessments cannot possibly be on an equal basis. To the extent that persons in one county are underassessed for personal property taxation, as compared with those in other counties, they are required to pay less than a proportionate share of the direct tax on property levied for state government purposes.

The problem, of course, is to bring all property, real and personal, on the assessment lists and at its full fair value. With the *tax base* thus enlarged, the *tax rate* could be correspondingly reduced without loss of revenue. The average $3.13 state and local rate in 1922 on full assessed values proved to be only $1.18 on the tangible values estimated by the United States Census Bureau for that year, in the calculations for Chart 2 of this study. Had the representative intangibles, not reported by Census Bureau but which represent an element of taxable values in Illinois, been included, the rate would have been between $1.10 and $1.15. One hundred per cent efficiency in assessment would reduce the present tax rate by almost two-thirds.

Summary

1. Farm land in Illinois is assessed at about two-fifths of its true value and city lots at a ratio slightly lower. By counties the ratios for farm land range from 34% to 75% and for city lots from 28% to 65%. Large city lots are distinctly underassessed, as compared with smaller lots, although no discrimination based on the size of properties appears in the case of farm land.

2. The following evidences of non-listing and underassessment of personalty may be noted:

(a) Although the true value of intangibles, as compared with realty, is manifestly increasing every year, the assessment rolls disclose a relative decrease of personalty, as compared with realty, between 1913 and 1925.

(b) The United States Bureau of the Census estimated the value of *tangible* personalty in Illinois in 1922 at $7,461 millions. The assessed full value of *all* personalty (including intangibles) in that year was $1,642 millions.

(c) The listing and assessment of individual types of personal property, such as automobiles, livestock and jewelry, is very low when compared with information derived from other and reliable sources regarding the number and value of such forms of property.

3. That many corporations escape listing and hence assessment on their corporate excess appears to be indicated by the fact that only 5,000 or 6,000 blanks are sent out by the State Tax Commission, whereas the United States Bureau of Internal Revenue reported 8,002 corporations which had net revenue in 1924 and which belonged in the classes assessed by the State Tax Commission.

4. The corporate excess of corporations assessed by local assessors was reported as $6.8 millions in 1924, whereas the same corporations reported a net income of about $400 millions in the same year. This is apparently a clear evidence of non-listing and underassessment. The Cook County assessors make no assessment of the corporate excess of the corporations in that county.

5. The non-listing and underassessment prevalent for all classes of property subject to the Illinois general property tax, but particularly widespread in the case of intangibles, would result in tax rates so high as to be confiscatory in the case of intangibles yielding a normal fixed rate of income if such intangibles were actually listed and fully assessed. If all property were listed and fully assessed, the tax rates could be reduced by almost two-thirds and still yield the same revenue as at present.

CHAPTER VII

PROPOSED REMEDIES AND SOLUTIONS

THE abuses of the general property tax as it is levied and administered today in Illinois have been indicated in Chapter VI. They have brought about a more or less complete negation of that equality in application which is presumed to be the virtue of the general property tax. An excessive proportion of the wealth of the state escapes assessment and taxation altogether. In consequence, that part of the wealth of the state that actually comes under the operation of the tax is overtaxed.

Such a situation calls for alleviation. It should be realized, however, that there is no all-embracing panacea, no quick cure-all. Essentially the issue is one of effective tax legislation and administration. To the extent that the state and local administration of the general property tax is made firmer and more far-reaching, fiscal abuses will be lessened, and the general property tax system will prove more equitable in its application and cheaper in its operation.

The legislative background of the present Illinois property tax is also responsible for no small part of its abuses. Some of the suggested changes in the tax law are considered in the succeeding sections of this Chapter, together with the broader proposals of reform, embodied in the classified property tax and in the income tax as a substitute for *ad valorem* taxation of intangibles.

Administrative Reform of the Illinois General Property Tax

Local Assessors

The assessment machinery of the general property tax has its basis in the local assessor. In the Illinois counties which have the township organization an assessor is elected annually for each township. In the other counties, the

assessors are appointed by the county boards for a term of one year. Maryland and Pennsylvania are the only other states where this system of mixed assessment organization is to be found.

There are weighty reasons for centralizing the assessment function in the county instead of in the township. Under the present industrial organization, the difficulties of assessment are so considerable as to make a permanent assessor necessary, and continuity in tenure can not well be had with a unit of assessment less than the county. Moreover, the elected township assessor is likely to be under the thumb of the very individuals whose property he is called upon to evaluate, since he is dependent upon their votes and favor. At present the county is the assessment unit in twenty-three states, while the township unit is retained in only fourteen states, including all the New England states, where the county as a governmental subdivision is very rudimentary. The remaining eleven states have either mixed systems, as in Illinois, or dual superimposed systems.

The compensation of the Illinois township assessors is fixed on a per diem basis varying between $5.00 and $10.00 per day, with a maximum of $1000 for a year's service. This is the usual form of compensation to assessors in the states which have the township system. Where the assessment is on a county basis, however, it is possible to provide an annual salary for the assessors, and this would seem to be the more satisfactory arrangement.

The assessors are required in Illinois to view and to value real property every four years. The assessments in the intervening years are made on the basis of the lists drawn up at the quadrennial valuations, the value of new buildings and improvements being added. The listing and valuation of personalty are undertaken annually on the taxpayer's declaration. It is evident from the data presented in Chapter V that there is wide variation in the efficiency of the assessment of land from county to county.[1] For this situation the assessors are not altogether responsible. So notorious is the escape of personalty from the tax lists that it is universally recognized that a thoroughgoing assessment of land

[1] See above, p. 119.

would work great injustice. By tacit agreement, the assessor places a value on land more or less commensurate with the current ratio of personalty assessment. Equality of the assessment ratio of land in the different parts of the state, rather than full assessment, is the present goal. Not until greater success is achieved in the taxation of personalty can or should any attempt be made to assess land at its full value.

Assessment of Intangible Property

The supreme issue of the assessment problem lies in the listing of intangibles. It is impossible for the assessor to cast his eye over such values and arrive at his own estimate. He must base his judgment on lists prepared by the taxpayer, and such lists are neither accurate nor reliable. There are four checks upon them: the assessment oath, the power of investigation granted the assessor, the infliction of penalties for evasion, and the "tax ferret."

The Illinois law requires the assessors to call at the office, place of business or residence of each taxpayer. The taxpayer must make and swear to a correct statement of his personal property as of April first. If the taxpayer is absent, notice is left. In practice, the "true and correct" statements required by law are rarely, if ever, made out. The listing and valuation is a compromise arrived at between the taxpayer and the assessor, consideration being given to the fact that all the taxpayer's neighbors are negotiating similar compromises. More often than not the statement is not sworn to, though this directly contravenes the law. The penalty of a 50% addition to the assessed value arrived at by the assessor for failure to take oath is rarely, if ever, enforced. If no report is made, the assessor must determine the amount and value of the unreported personalty as best he can. To this estimate he adds 50% as a penalty. Many a taxpayer finds the assessment so fixed far below the true value of his holdings.

There are many individuals who would not hesitate to include misstatements in an unsworn statement, whose consciences would be sorely troubled if they made such misstatements under oath, quite apart from the fact that a sworn misstatement would make them subject to the pen-

alties for perjury. This one little detail is responsible for no small part of the present disorganization of the Illinois system of personalty taxation. A rigid enforcement of the assessment oath would go far in raising the amount of personalty reported.

The assessor fixes the values of the property listed by the taxpayer. Here again the "man-to-man" compromise often enters. The assessor can examine under oath "any person whom he may suppose to have knowledge of the amount or value of personal property" which the taxpayer refuses to disclose. He has not, however, power to subpœna books or accounts, and there is little evidence that much examination of witnesses takes place. This assuredly is a place where the tax law needs new "teeth."

Penalties for Non-listing of Intangibles

The Illinois tax law is woefully weak in the matter of penalties. False swearing, of course, is perjury; but so general is the practice of non-listing that it is felt that the punishment is out of proportion to the crime, and the penalty is rarely enforced. As has been indicated, the only penalty for refusing to fill in the assessment schedule or to swear to its accuracy is 50% additional assessment. Much heavier penalties are found in other states. One common form is the provision that if the taxpayer refuses to list his property, he forfeits his right to be heard by the board of review or equalization on a complaint of overassessment. Pecuniary penalties are the most effective form. A moderate example is the provision in Missouri for a fine of from $10 to $1000 for refusal to take oath. The penalty in Kansas for failing to submit a list without good cause is from $50 to $5000, with an increase of 50% in the assessment.

At least four states, Ohio, Iowa, Kentucky and Oklahoma, have at one time or another made extensive use of "tax inquisitors" or "tax ferrets"—individuals or organizations employed by the assessor or county auditor to search out and report cases of non-listing—who received a commission on all cases reported. This system has usually met with bitter opposition on the part of the public, but it has been largely sentimental or fostered by individuals and groups that had

previously been able to evade their due share of taxes. The one warranted criticism that can be made of this method of preventing tax evasion is that it tends to seek out certain types of property easily discovered and to ignore cases where the search would have to be more thoroughgoing. In all cases this system has resulted in bringing on the tax rolls millions of dollars' worth of property that had previously escaped taxation.

In counties under township organization, the assessors' returns are reviewed by a township board, consisting of the assessor, the town clerk and the town supervisor, which offers to the Illinois taxpayer the opportunity for correction on complaint. The lists are then forwarded to the county clerk and are reviewed by the county board. This board exercises powers both of review and of equalization. In the counties with commission governments, the commissioners constitute a board of equalization. Cook and St. Clair counties have specially elected boards. The principle of this double review is highly commendable, but there are no data to indicate its practical efficacy. In the assessment of personalty the lists of the assessor present such a hopeless situation to the county boards that it is difficult to see what might be accomplished by them.

The focus of the maladministration of the Illinois general property tax is the State Tax Commission. So long as this body continues inactive and impassive, little can be accomplished towards energizing and reforming the procedure of local assessment. The law, with one or two exceptions, gives it full and ample powers. It is the indifference of its personnel, rather than any flaw in its organization, that must be held accountable for the present situation.

Powers of the State Tax Commission

Section 2 of the State Tax Commission Act of 1919 gives the commission the following powers: (1) to direct and supervise the assessment procedure; (2) to confer with, advise and assist local assessment officials; (3) to prescribe assessment rules and regulations which are binding upon local officials; (4) to prescribe or approve necessary forms and blanks; (5) to assess the trackage and rolling stock of

railroads; (6) to assess the capital stock, including the franchise, of specified types of corporations; and (7) to equalize assessments between the counties. Section 3 of the law gives the commission the following additional powers: (1) to require local assessment officers to meet with it in conference; (2) to formulate and recommend tax legislation; (3) to investigate into the true value of the properties and franchises of specified types of corporations; (4) to investigate the tax systems of other states and countries; (5) to request the institution of proceedings, actions and prosecutions to enforce the tax law; (6) to order reassessments when it deems them necessary; (7) to take testimony under oath and to require the production of pertinent documents under subpœna; (8) to require necessary information from state and local officials; (9) to examine all pertinent public records; and (10) to adopt rules for ascertaining the fair cash value of the capital stock of corporations assessed by it.

In only two respects is the state tax commission law open to criticism. While the commission may increase or decrease the assessment of any county as much as one-tenth of the total state assessment, the aggregate assessed valuation for the state may not be reduced nor increased "except in such amount as may be necessary to a just equalization." Such provisions for the maintenance of the aggregate assessment are common enough in the state tax commission laws. Their disadvantage is that they check any influence that might be brought to bear by the commission to "level up" the general aggregate of assessments.

The 1919 state tax commission law placed the assessment of capital stock or corporate excess in the hands of the commission, except in the case of manufacturing and mercantile companies, companies for the mining and sale of coal, for printing, for publishing newspapers and for the improvement or breeding of stock. There can be no excuse for the exceptions made. The original exemption of these companies from the capital stock tax was a crude case of fiscal favoritism. Though brought under the tax in 1905 by judicial decision,[1] the favoritism accorded these companies has continued in the

[1] See above, p. 74–75.

provision for assessment. The local assessor has neither the abilities nor the facilities to make an accurate assessment of capital stock values. As a result, this group of corporations is greatly underassessed. This exception should be abolished and all corporations, or at least those of a certain size, should be made subject to assessment by the commission.

It is not necessary, at the present time, to enlarge the powers of the State Tax Commission; but it should exercise those it already possesses. It has extensive powers of supervision and control over the entire assessment process; it does not exercise them. It has the power and the duty to study the tax laws of other states and countries and to report to the Illinois Legislature on methods of improving the Illinois law; it has never done so. Even its equalization powers have been allowed to slip away. Since 1922 it has been going through the motions of equalizing assessments between counties and between classes of property, but these equalized values have not been reported back to the local officers, and so the levy is made on the assessment as it passes the county boards.

Referendum Votes upon Reform of the General Property Tax

Upon three separate occasions—in 1916, in 1922, and in 1926—the Illinois voters have had an opportunity to pass upon the advisability of reforming their general property tax law.

In 1910, a special tax commission reported to Governor Deneen upon the abuses of the Illinois general property tax. Its conclusion was that "other methods of taxation than the general property tax are both more equitable and at the same time more successful as a means of raising revenue from intangible property."[1] The outcome of this recommendation was a referendum in 1912, in accordance with the provisions of the "Public Policy Act," on the question whether the general assembly should submit for popular vote at the next state election "an amendment to the state constitution providing for the classification of property for

[1] Message of Governor Charles S. Deneen, 1911.

purposes of taxation with taxes uniform as to each class within the jurisdiction levying the same." The vote on this preliminary referendum was 541,189 in favor of submitting the amendment to popular vote, and 187,467 against the proposal.

The amendment in question was submitted to popular vote in 1916. The vote was 656,298 in favor of the amendment and 295,782 against it. The affirmative vote was a majority of the votes cast for members of the general Assembly, and the state canvassing board held, therefore, that the amendment had passed. The state Supreme Court in the following year, however, held that the vote necessary to ratification was a majority of the total vote cast for all public officers, and declared the amendment defeated.[1]

The revised Constitution, submitted to the vote of the people of Illinois in 1922, contained several provisions for tax reform. It would have permitted a flat-rate income tax to be levied on income from intangibles in lieu of all other taxes on such property. In addition, the state would have been empowered to levy a general progressive income tax with suitable exemptions and deductions, a part of the revenue to be apportioned to the local governments. Furthermore, the revised Constitution would have permitted classification of business enterprises and occupations for the purpose of levying occupation taxes. This proposed constitution was defeated at the polls, and with it the possibility of property tax revision for the time being.

In 1926, still another proposed amendment was submitted to the Illinois voters, reading in part as follows:

> ". . . the general Assembly shall have authority to provide by general law for the levy and collection of taxes for public purposes upon persons, property and income, free from the limitation contained in sections one, three, nine and ten of this article (IX). Taxes levied under the authority of this section shall be uniform upon all persons, property or income of the same class. All real estate shall be in one class, except that mineral land and land devoted to reforestation may be in different classes. Exemptions from taxation may be established only by general law. This section shall not affect existing exemptions established by law under the authority of section 3 of this article. . . . No

[1] *People v. Stevenson*, 281 Ill. 17.

act for the imposition, increase, continuance or revival of a tax under the authority of this section, or for the establishment of exemptions under the authority of this section, shall become a law without the concurrence of two-thirds of the members elected to each House."

This amendment, if ratified, would have released the legislature from all existing constitutional limitations except those relating to the bonding power and exemption for church and sectarian purposes. It would have permitted classification of property for tax purposes, the passing of an income tax law in lieu of property taxation of intangibles, or a combination of classification and an income tax law. At the polls there was a majority favorable to the amendment, 651,768 to 476,455, but not an absolute majority of all votes cast, and the amendment was defeated.

A comparison of the votes for and against constitutional amendments embodying the principle of classification in Illinois and in the other states where such amendments have been submitted is presented in Table 31.

It is to be noted that of seventeen amendments (including new constitutions) embodying property tax classification which have been submitted to the voters since 1919, twelve were defeated and five ratified. In two states in which the amendments were defeated,[1] however, a majority of the votes cast was favorable to the amendments, but since the number of votes cast for the amendments did not constitute a majority of the total votes cast in the election, the amendments failed of adoption.

Classification of Property for Tax Purposes

"Classification" has come to be a blanket term, broadly used by fiscal economists, and has lost some of the definite meaning that may originally have attached to it. It is sometimes broadened to include all types of exemption, as well as income taxes substituted for property taxes on intangibles. It is sometimes limited to discriminating fractional assessment and rate discrimination.

In its legal or constitutional usage the term is narrow. It

[1] In New Hampshire in 1920, and in Illinois in 1926.

TABLE 31: VOTE ON AMENDMENTS FOR CLASSIFICATION OF PROPERTY FOR TAX PURPOSES IN THE VARIOUS STATES[1]

State	Vote on Amendments				
	Year Submitted	Vote "For"	Vote "Against"	Adopted	Defeated
California	1912	169,321	243,959	..	X
	1915	42,158	250,597	..	X
	1922	248,541	352,391	..	X
	1924	429,031	368,014	X	..
Florida	1924	36,971	16,289	X	..
Illinois	(1912)[2]	(541,189)	(187,467)	(X)	..
	1916[4]	656,298	295,782	..	X
	1922[3]	..	..	..	X
	1926[4]	651,768	476,455	..	X
Indiana	1921	31,786	166,186	..	X
Kansas	1914	156,969	166,800	..	X
	1920	170,710	218,931	..	X
	1924	250,813	196,852	X	..
Kentucky	1913[5]	..	..	X	..
	1915	67,449	35,467	X	..
Louisiana[5]	1912	..	..	..	X
	1916	..	..	X	..
	1921[3]	..	..	..	..
Maine	1913	..	..	X	..
Maryland	1915[6]	49,918	26,722	X	..
	1906[7]	156,051	46,982	X	..
	1908	134,141	65,557	..	X
Mississippi	1918	6,502	22,426	..	X
	1924	9,865	83,689	..	X
Missouri	1901[8]	172,159	108,841	X	..
	1902[9]	117,066	80,843	X	..
	1914[10]	138,000	334,000	..	X
	1924	113,123	216,985	..	X
Nebraska	1914	88,068	82,136	..	X
	1920	59,105	15,561	X	..

[1] Data from Leland, "The Classified Property Tax."
[2] Referendum on whether classification amendment should be submitted.
[3] New Constitution submitted.
[4] Favorable majority, but not majority of total votes cast.
[5] Adopted by a majority of over 30,000, but courts declared election void.
[6] Vote also given as 49,849 to 26,723.
[7] Declared adopted in 106 Minn. 392. Resubmitted in 1908.
[8] Dealt with taxation of mortgages.
[9] Repealing 1900 mortgage tax amendment which had been declared invalid in 164 Mo. 69.
[10] To prohibit use of direct legislation to classify property.

TABLE 31: VOTE ON AMENDMENTS FOR CLASSIFICATION OF PROPERTY FOR TAX PURPOSES IN THE VARIOUS STATES—*Continued*

State	Vote on Amendments				
	Year Submitted	Vote "For"	Vote "Against"	Adopted	Defeated
Nevada	1902[11]	3,945	614	X	..
	1906[12]	5,450	1,359	X	..
New Hampshire	1920[4]	49,018	32,173	..	X
	1925	21,440	33,819	..	X
New Mexico	1914	18,468	13,593	X	..
North Carolina	1914	50,520	68,148	..	X
North Dakota	1914	45,162	18,135	X	..
Ohio	1889	245,438	273,368	..	X
	1891[4]	303,177	65,014	..	X
	1893[4]	322,422	82,281	..	X
	1903[4]	326,622	43,562	..	X
	1908[4]	339,747	95,867	..	X
Oregon	1908[13]	32,066	60,871	..	X
	1912	52,045	54,483	..	X
	1914	(59,206)	(116,490)	..	X
	..	(52,362)	(122,704)	..	X
	1917	62,118	53,245	X	..
South Dakota	1908	35,915	47,432	..	X
	1916	43,793	55,568	..	X
	1918	50,857	25,010	X	..
Tennessee	1922	58,906	82,169	..	X
Texas	1927	..	..	..	X
Utah	1912	6,415	25,684	..	X
	1916	14,957	55,135	..	X
	1922	16,378	57,380	..	X
Washington	1908	23,371	60,244	..	X
West Virginia	1926	111,927	159,653	..	X
Wisconsin	1908[14]	85,696	37,729	X	..

[4] Favorable majority, but not majority of total votes cast.
[11] Patented mining claims to be taxed at $10 per acre.
[12] Related to taxation of patented mines.
[13] Exemption of improvements on land.
[14] Allows progressive income tax and exemption of property.

represents the abrogation of the rule of uniformity, whether for the purpose of making possible a greater degree of

administrative efficiency in the administration of the tax or to eliminate specific abuses by equating the tax rate on certain types of property more closely to their yield value or to facilitate discrimination favoring and encouraging certain economic groups or industries. The theorist often goes further and takes into consideration the purposes and intents of the discriminations involved, and gives thought to discriminations arising under the general property tax itself where these have effects more or less similar to those arising from "classification" in its more limited constitutional application.

In this study consideration is confined to those forms of exemption and assessment or rate discrimination which are intended to remedy the injustice or defects in the administration of the general property tax. Exemptions and discriminations intended to operate as bonuses to particular industries or economic activities are omitted.

Table 32 analyzes exemptions and the methods of classifying property for tax purposes now in effect in the several states, to the extent that they embody remedial intent. Such classification is the result of legislative enactment. Legislative enactment must conform with constitutional limitations. Only when the state constitution *does not specifically limit* the legislature's power to classify, or when it *specifically grants* full or limited powers to classify, can the state legislature provide for any degree of classification.[1] Of the thirty-one state legislatures having power to classify property for purposes of taxation, seven[2] owe this power to the fact that their state constitutions lay no specific proportionality prohibitions upon them, and the courts have interpreted this freedom from restriction as giving power to classify. One other state, Missouri, owes its limited classification power to the judicial interpretation that the uniformity clause in its constitution is intended to apply to the

[1] In a few states where the legislature has no power to classify property for tax purposes, special taxes have been levied or special methods of assessment have been provided, which arrive at some of the results of classification. Thus Indiana levies a three cent tonnage tax on vessels registered in the state. Utah provides for assessment of productive mineral lands on the basis of $5 per acre plus three times the net annual proceeds.

[2] Alabama, Connecticut, Iowa, New Jersey, New York, Rhode Island and Vermont.

Table 32: Remedial Classified Property Tax Provisions and Exemptions, 1926[1]

(National Industrial Conference Board)

State	Constitutional provisions for classification: a. None. b. Full power. c. Limited power.	Property totally exempt: (a) Money. (b) Credits. (c) Shares of stock. (d) Corporate excess of specified domestic corporations.[2]	Classes of property fractionally assessed for general property tax purposes.	Classes of property taxed at special mill rate in lieu of general property tax levy: (a) Money. (b) Credits. (c) Shares of stock. (d) Corporate excess of domestic corporations.	Special annual taxes with special bases of assessment on classes of property or business, substituted for general property tax methods.	Special registration fee or tax on classes of intangibles in lieu of all taxes.
Alabama	a	(a), (b), (c), domestic, securities secured by mortgage. Agricultural and manufactured products for one year in hands of producer. Domestic raw material stored for manufacture.			Merchants' and manufacturers' stock assessed on average value for year. Commission merchants on gross amount of commissions. Auctioneers pay ¼% on gross sales of goods owned by non-residents and of imported goods sold before being assessed, ⅛% on gross sales of goods owned by residents and on fruit sold by cargo.	Mortgages—1½ mills.
Arizona	b	(c) except domestic bank stock.				
California[3]	c	(a) on deposit. (c) exempt to owner to extent that the property of the corporation is taxed in state. Deduction of 7% of debts to residents of State allowed on credits unsecured by mortgage, where land in state is pledged as security.		(b), (c) except bank stock—1.45%.		

[1] The table aims to be complete only as applied to individuals and ordinary business corporations. Exemptions and fractional assessments intended to encourage particular enterprises and industries are not included.

[2] The corporate excess of the domestic corporations of a state is taxable only when specifically included by statute. Such statutes, when enacted, are covered in the column on "special annual taxes with special bases of assessment." The exemption of corporate excess is noted in the "exemption" column only when corporate excess is generally made taxable with specific types of corporations exempted.

[3] No state property tax.

Table 32: Remedial Classified Property Tax Provisions and Exemptions, 1926—(*Continued*)

(National Industrial Conference Board)

State	Constitutional provisions for classification: a. None. b. Full power. c. Limited power.	Property totally exempt: (a) Money. (b) Credits. (c) Shares of stock (d) Corporate excess of specified domestic corporations.	Classes of property fractionally assessed for general property tax purposes.	Classes of property taxed at special mill rate in lieu of general property tax levy: (a) Money. (b) Credits. (c) Shares of stock. (d) Corporate excess of domestic corporations.	Special annual taxes with special bases of assessment on classes of property or business, substituted for general property tax methods.	Special registration fee or tax on classes of intangibles in lieu of all taxes.
Colorado	b	(c) and debts secured by property in state. Debts deductible from credits. "Corporate intangibles" are assessable by law, but there are no assessments being made.			Producing mines assessed at ¼ of gross proceeds unless net proceeds exceed that amount. Net proceeds defined as gross proceeds less expenses except for extraction (cost of transportation and reduction allowed). Machinery and improvements regularly taxed in addition.	
Connecticut	a	(a), (b) and (c) of corporations paying income tax. Bonds of public utility corporations. (a) savings bank deposits taxed elsewhere if that state does not discriminate between resident and non-resident deposits. Mortgages and mortgage bonds to extent of assessed value of real estate security. Debts owing residents deductible from taxable credits locally assessed. Produce of farms and fishing apparatus.		Bonds, notes and choses in action—4 mills. Savings bank deposits—2½ mills.	Merchants' and manufacturers' stock assessed at average value for year. Vessels in interstate commerce assessed on value of annual net earnings.	

Delaware	b	Only real estate and live stock assessed.				
Florida	c	(c) to extent that property of the corporation is taxed in state.[4]				
Idaho	b	(b) secured by mortgage or other lien, (c) to extent that property is taxed in state. Growing crops, unpatented mines, registered motor vehicles.			Mining land assessed on basis of net proceeds, defined as gross proceeds less expenses for extraction, transportation, reduction and sale, and also operating expenses, including operating supplies and construction.	
Iowa	a	(c) of domestic corporations and all public utility, loan, merchant and manufacturing corporations. (d) of merchant and manufacturing corporations. Rent not yet due. Debts deductible from credits.	All property not classified for taxation at special rate assessed at 25% of full value.	(a), (b), (c) and (d)—5 mills, and additional 1 mill soldier's bonus levy.	Corporate excess, taxed at low mill rate, is assessed by valuation of capital stock, considering dividends, net earnings, gross earnings, market quotations, and sinking fund additions. The value of all tangible property of the corporation is deducted from the capital stock. Merchants, manufacturers, grain, ice, and coal dealers are assessed on average value of stock, money and credits during the year.	

[4] Though intangibles are taxable according to the Florida statutes, they are not being assessed according to information supplied by the State Equalizer of Taxes.

Table 32: Remedial Classified Property Tax Provisions and Exemptions, 1926—(*Continued*)

(National Industrial Conference Board)

State	Constitutional provisions for classification: a. None. b. Full power c. Limited power	Property totally exempt: (a) Money. (b) Credits. (c) Shares of stock. (d) Corporate excess of specified domestic corporations.	Classes of property fractionally assessed for general property tax purposes.	Classes of property taxed at special mill rate in lieu of general property tax levy: (a) Money. (b) Credits. (c) Shares of stock. (d) Corporate excess of domestic corporations.	Special annual taxes with special bases of assessment on classes of property or business, substituted for general property tax methods.	Special registration fee or tax on classes of intangibles in lieu of all taxes.
Kansas	c	(c) of corporations paying corporate excess tax.		(a) and (b)—5 mills, for individuals only (except merchants and manufacturers). Secured debts, 1 mill.	Corporate excess determined by valuing capital stock, considering gross receipts, expenses, bonded debt and interest, floating debt and interest, dividends, surplus and par and market value of shares, deductions, all tangible property of the corporation and mortgages on which registration fee has been paid. Merchants and manufacturers assessed on average value of stock, money and credits.	Secured debts, 1 mill.
Kentucky	b	(c) of corporations 75% of whose property is in state.		Real estate—3 mills plus full local rate. Personal tangibles not otherwise accounted for—5 mills plus full local rate. Franchises—5 mills plus full local rate. Agricultural implements, manufacturing (including newspaper and job printing), machinery, raw materials at plants and products in process of manufacture, agricultural products, unmanufactured in hands of agent for sale, live stock, fowls, intangibles other than bank deposits and franchises (including (a), (b) and (c))—5 mills except that shares of banks, trust and domestic insurance		

				companies are subject to the local rate in addition. Bank deposits—1 mill. Crude oil—1% of value of product to state and optional ½% for localities.		
Louisiana	b	(a), (b) secured by mortgage on property in state, and accounts for merchandise. (c) except bank stock. Bonds of domestic corporations.	Bonds—10%.			
Maine	c	Money on deposit at interest outside state exempt only by reciprocal provision with other states. Money secured by mortgage on real estate in Maine. (c) of manufacturing, mining, smelting, stock raising and real estate, railroad, express and parlor car corporations. In taxing shares of stock, deduction of proportion of property of corporation taxed in state is allowed. Property of mines other than land and surface improvements.			Personal property in trade assessed at average annual inventory value. New vessels and barges assessed at $20 per ton. Reduction of value of $1 per ton for each year allowed, with minimum value of $3 per ton. Rebuilt vessels provided for.	
Maryland	b	(a) except savings bank deposits. (c) of domestic corporations. Non-productive investments. Mortgages and ground rents. Domestic corporations doing no business in state.		(a) savings bank deposits — 2½ mills. (c) of foreign corporations, and bonds—4½ mills. Domestic bank and trust company stock—10 mills plus full state rate.	Domestic corporations taxed on tangible and intangible assets on same basis as individuals. Personal property is apportioned locally on basis of residence of shareholders, the shares of non-residents having situs at the principal office in the state.	

TABLE 32: REMEDIAL CLASSIFIED PROPERTY TAX PROVISIONS AND EXEMPTIONS, 1926—(*Continued*)

(National Industrial Conference Board)

State	Constitutional provisions for classification: a. None. b. Full power. c. Limited power.	Property totally exempt: (a) Money. (b) Credits. (c) Shares of stock. (d) Corporate excess of specified domestic corporations.[2]	Classes of property fractionally assessed for general property tax purposes.	Classes of property taxed at special mill rate in lieu of general property tax levy: (a) Money. (b) Credits. (c) Shares of stock. (d) Corporate excess of domestic corporations.	Special annual taxes with special bases of assessment on classes of property or business, substituted for general property tax methods	Special registration fee or tax on classes of intangibles in lieu of all taxes.
Massachusetts	c	(b), (c) and all property the income of which is taxed. Manufacturers and corporations are taxed only on real estate and machinery.		Savings—and (d)[5] 5 mills.	Interest in ships and vessels in foreign trade—⅓%.	
Michigan	b	(c) except bank shares. Debts deductible from credits.		Mortgages on property within or without state—5 mills.	Steam vessels, boats and barges: freight only—10 cents per net registered ton; all others—25 cents per net registered ton.	
Minnesota	b	(c) of domestic corporation and of foreign corporation having substantial part of its property taxable in state.	1) Mined and unmined iron ore—50%.[6] 2) Household goods—25%. 3) Live stock, manufacturers' machinery and materials, merchandise, unplotted real estate and other specified property—33⅓%. 4) Farm machinery, agricultural products, etc.—10%. 5) Public utilities, bank stock, plotted real estate, corporate excess—40%.	(a), (b) and (c)—3 mills.	Steam vessels, etc., engaged in navigating international waters—5 cents per net registered ton. Grain in warehouse: wheat and flax—½ mill per bushel; all others—¼ mill per bu. Corporate excess determined by market or actual value of capital stock less all real and personal property.	Mortgages maturing within 5 yrs. and 60 days—1½ mills; longer duration—2½ mills.

Missouri	c (as to intangibles, by construction)	Intangibles are not specifically required to be listed under the general property tax law, and the state courts have held that they are thereby not taxable. This effects the exemption of (a), (b), (c) and (d), except for the specified intangibles subject to the special tax on securities. By decision of the Supreme Court of Missouri, in February, 1927, the accounts receivable of merchants were held taxable, but a law was promptly passed in 1927 exempting these credits from property taxation.		Any notes, bonds, debentures of any state government, any secured by collateral security, any of duration of one year or more, and all mortgages secured by real estate—state rate of ½ mill per annum or fraction thereof with maximum of 2½ mills for period of duration of security. Counties, cities and towns may make additional levies at same rate, thus making maximum for all purposes 1½ mills per annum and 7½ mills for duration of security.	Merchants and manufacturers assessed on highest value of stock on hand between first Monday in March and first Monday in June. St. Louis and Kansas City substitute a license tax measured by average value of merchants' and manufacturers' stock for property tax thereon. Vessels.[7]

[5] Corporate excess is not taxed in Massachusetts as a property tax but as a corporation franchise tax at the rate of 5 mills. Domestic and foreign corporations pay on so much of the corporate excess as is apportioned to the state. The fair cash value of the capital stock is obtained by independent consideration of each case, the following rules generally being applied:

1. For corporations showing liquid assets, the capital stock is total assets less liabilities.
2. Where larger part of assets are fixed, the capital stock is computed by capitalizing the average earnings for 5 years at 12½%, adding twice the net value of assets and dividing this sum by 3.

Corporations having no tangible assets have their average earnings for five years multiplied by 8 to fix the value of the capital stock.

Corporations having no net earnings and fixed assets are capitalized at 90% of their net assets. Deductions are then allowed for all tangible property outside the state, real estate and machinery taxed in the state, securities the income of which is non-taxable to residents, savings accounts in states exempting Massachusetts savings accounts, government bonds and certificates, mortgage loans, bank shares and shares in all partnerships and trusts taxed on income in the state. Cash and accounts are deducted in the proportion that tangible property outside the state bears to the total tangible property.

[6] Minnesota places additional burden on mineral ores by a tax of 6% of the net value of the product as an occupation tax on mining and royalty interests.

[7] Missouri classifies vessels by making them taxable locally at the situs of the property, and in addition they may be taxed by cities for wharfage improvement as follows: cities having a population in excess of 50,000 and levying not more than one mill on the property for municipal purposes—3 cents per ton (if vessel is not registered in the state, the rate may be 5 cents per ton); cities having a population between 5,000 and 50,000—$2.00 per landing; other cities $1.50 per landing.

Table 32: Remedial Classified Property Tax Provisions and Exemptions, 1926—(*Continued*)

(National Industrial Conference Board)

State	Constitutional provisions for classification: a. None. b. Full power. c. Limited power.	Property totally exempt: (a) Money. (b) Credits. (c) Shares of stock. (d) Corporate excess of specified domestic corporations.	Classes of property fractionally assessed for general property tax purposes.	Classes of property taxed at special mill rate in lieu of general property tax levy: (a) Money. (b) Credits. (c) Shares of stock. (d) Corporate excess of domestic corporations.	Special annual taxes with special bases of assessment on classes of property or business, substituted for general property tax methods.	Special registration fee or tax on classes of intangibles in lieu of all taxes.
Montana	b	(b) upon real and personal property in Montana secured by recorded mortgage. Debts deductible from credits, except when owed on state and local bonds.	1)Net annual proceeds of mines and mining claims—100%. 2) Household goods, agricultural tools and motor vehicles—20%. 3) Live stock, agricultural products, merchandise and store fixtures—33⅓%. 4) Real estate, manufacturing and mining machinery, fixtures and supplies—30%. 5)(a)(b)and (c)including mortgages and government securities, but excluding national bank stock—7%.			

			6) Shares of stock in national banks and moneyed capital employed in banking business—40%. 7) All other property—40%.			
Nebraska	c	(c) of domestic corporations.		(a)—2½ mills. (b), (c) and (d)—5 mills.	Corporate excess is valued by deducting assessed value of property in Nebraska and actual value of tangible property outside the state from the actual value of the paid-in stock, surplus and undivided profits. Grain brokers, motion picture distributors, sugar manufacturers and oil dealers are assessed on average total investment less tangible property, and taxed at local rates.	
New Jersey	a	Personal property taxed in other states during past 12 months. (c) except bank stock. Deduction of debts owed to residents and mortgages on personal property or on both real and personal property. Mortgages on personal property or debts secured thereby exempted unless claimed as deduction by mortgagee. Goods in warehouse.		Savings—5 mills. Bank stock—3½ mills.	Merchants and manufacturers assessed on average value of raw materials, stock, and products.	

Table 32: Remedial Classified Property Tax Provisions and Exemptions, 1926—(*Continued*)

(National Industrial Conference Board)

State	Constitutional provisions for classification: a. None. b. Full power. c. Limited power.	Property totally exempt: (a) Money. (b) Credits. (c) Shares of stock. (d) Corporate excess of specified domestic corporations.	Classes of property fractionally assessed for general property tax purposes.	Classes of property taxed at special mill rate in lieu of general property tax levy: (a) Money. (b) Credits. (c) Shares of stock. (d) Corporate excess of domestic corporations.	Special annual taxes with special bases of assessment on classes of property or business, substituted for general property tax methods.	Special registration fee or tax on classes of intangibles in lieu of all taxes.
New Mexico	b	(a) (b) (c) and (d). There is no specific provision by statute for the taxation of intangibles and no evidence in the State Tax Commission Reports that they are being reported. According to the Tax Commission they are taxable but not taxed.			Mineral property is assessed in any year either by valuation on appraisal or by output method—in addition to assessment of improvements, average annual output for 5 years less costs of production and royalties to the State or the United States. Gas and oil wells, in addition to taxation of surface rights and improvements, pay tax at local rate on gross products less royalties to the state, to Indians, or to the United States, and less 50% for cost of production.	
New York	a	(a) (b) (c) and (d), except bank stock. All personal property of corporations paying a franchise tax based upon net income (all corporations, except banks, public utilities, investment and real estate corporations).		Bank stock—1%.		Mortgages—5 mills. Corporate bonds secured by real estate — 5 mills.

North Dakota	b	(a), (b) and (c). Farm buildings and improvements.			Land containing lignite coal and minerals—3 cents per acre.	
Oklahoma	b	(c) of domestic corporations except banks, and of foreign corporations paying taxes on property in state. Farm produce in raw state. Breaking on wells upon which final proof has not been made.		(a[8]), (b)—2 mills. Notes, bonds, choses in action—4 mills.[8]	Corporate excess taxed at local rates. Determined by valuing capital, surplus and profit, considering assets and market value of shares, and deducting all property otherwise taxed within or without state. Merchants' and manufacturers' stock assessed at average value for year Asphalt and oil produced, less royalty interest—5 mills. Petroleum oil and natural gas, less royalty interest—3%. Tank farms and contents, fixtures, interest in land and produce on hand or in storage assessed for general property taxation in addition.	Mortgages—2/10 mill per annum; maximum—1 mill for 5 years or more.
Oregon	b	(c) to extent that property of the corporation is taxed in state. Notes secured by mortgage on real estate. Notes and accounts due from non-residents.				
Pennsylvania[3]	b	(c) of domestic corporations.[9]		(a), (b) and (c) 4 mills.[9]		

[8] In *Shirley and White v. Grounds* (May, 1927), the state Supreme Court held that this tax on money was unconstitutional, and that notes, bonds and choses in action belonging to non-residents have no taxable situs in the state.

[9] Intangibles of domestic corporations are taxed at the 4 mill rate for state purposes under the Pennsylvania Corporate Loan Tax, and are exempt in the hands of resident dwellers. Personal intangibles are locally taxed at the 4 mill rate. Besides these taxes on intangibles, real estate, cattle and horses are assessed for local taxation. The capital stock of domestic corporations is taxed at 5 mills by the state, and the shares are exempt to resident owners.

Table 32: Remedial Classified Property Tax Provisions and Exemptions, 1926—(*Continued*)

(National Industrial Conference Board)

State	Constitutional provisions for classification: a. None. b. Full power. c. Limited power.	Property totally exempt: (a) Money. (b) Credits. (c) Shares of stock. (d) Corporate excess of specified domestic corporations.	Classes of property fractionally assessed for general property tax purposes.	Classes of property taxed at special mill rate in lieu of general property tax levy: (a) Money. (b) Credits. (c) Shares of stock. (d) Corporate excess of domestic corporations.	Special annual taxes with special bases of assessment on classes of property or business, substituted for general property tax methods.	Special registration fee or tax on classes of intangibles in lieu of all taxes.
Rhode Island	a	(a), (b) and (c) to corporations paying corporate excess franchise tax.[10] (c) of foreign national banks taxed outside the state, and (c) bonds and debentures of corporations paying corporation excess franchise tax and of public utilities taxed on gross earnings in state. Debts deductible from credits.		(a), (b), (c) and (d)—4 mills.	Registered ships engaged in foreign commerce (¾ of earnings must be from foreign trade)—1% on net earnings; no deductions allowed for interest on vessels or extraordinary repairs.	Mortgages—1 mill.
South Dakota	b	(c) if property of corporation is taxed in state.		(a), (b) and (c) including mortgages —4 mills.	Grain in storage—¼ mill per bushel on wheat and flax, ⅛ mill per bushel on all other grain. License fee of one dollar for each animal raised in lieu of taxation of property used in the breeding of fur-bearing animals.	
Vermont	a	(c) of public utilities and foreign corporations paying taxes on shares of stock in state of incorporation. (c) of commercial, manufacturing and trading corporations to extent that capital of corporation is in-		(c) 2%. (Assessed on dividend value capitalized at 6%.) (a) bank deposits —7 mills. All other (a) and		

		vested in tangible property and of all other corporations to extent that capital is invested in real estate.		(b)—4 mills.		
Virginia	b	(c) of all corporations paying franchise tax in Virginia. The capital of merchants and all real and tangible personal property exempt from state tax. Domestic corporations doing no business in state.		(a) Bank deposits—2 mills; state and local bonds—3½ mills. (c) of foreign corporations, bonds and evidences of debt—5 mills. (b) and (d) all capital not otherwise taxed—10 mills (after 1926—8½ mills).		Mortgages—1 mill.
Wisconsin	b	(a), (b), and (c) except bank stock.			Vessels used in interstate commerce—one cent per net registered ton. Lead and zinc bearing lands—value of land plus 1/6 of sales during year in addition to personal property. Grain in storage: ½ mill per bushel for wheat and flax; ¼ mill per bushel on other grain. Coal on docks: ½ cent per ton bituminous; 2 cents per ton anthracite.	

[10] Money on deposit is taxed at the bank; other intangibles are taxed to resident owners; corporations pay the tax on intangibles under (d) as a franchise tax and are exempt from other taxation on intangible property. Corporate excess is determined as follows: the value of shares plus indebtedness is apportioned to Rhode Island in the proportion that tangible property in the state bears to total tangible property; in the case of corporations dealing in tangible property (proportion of gross receipts used for other corporations), less the assessed value of property in the state. Allowance is also made for exempt property, but only par value of United States bonds is deductible.

taxation of tangible property only.[1] Of the remaining twenty-three states, seventeen[2] have constitutions which specifically give their legislatures unrestricted power to classify property, and the remaining six[3] have constitutions granting only limited powers of classification.

If the power to classify property for tax purposes is granted by the constitution, there are four methods by which a legislature can effect such tax reform: (1) certain types of property may be totally exempted from the property tax; (2) property may be divided into classes which are assessed at definite varying ratios to actual values and the resulting assessed values taxed at a uniform rate; (3) property may be divided into classes which are assessed uniformly but are subsequently taxed at varying rates; and (4) certain types of property or business may be withdrawn from the regular property tax system and covered by special taxes. These last mentioned special taxes are of two types: (1) recurring annual taxes, and (2) non-recurring registry charges.

Exemptions of Property from Taxation

Though exemptions have, in effect, much in common with classification, the two may be distinguished from the historical and legal points of view. Exemptions are subject to constitutional limitations, but the constitutional provisions for exemption and for classification are usually distinct. Every state constitution makes some provision for the exemption from taxation of certain classes of property and of property of certain classes of owners. The property generally exempted from taxation comprises three types: (1) property owned by and the bonds of federal, state and local governments; (2) a certain amount of household goods and furniture, wearing apparel and similar personal property owned by individuals; and (3) the property of religious, charitable, benevolent, eleemosynary, humanitarian and similar institu-

[1] The uniformity clause in the Missouri Constitution does not, however, interfere with the powers of St. Louis and of Kansas City to substitute license taxes, based on the stock of merchants and manufacturers, for the property tax on such property.

[2] Arizona, Colorado, Delaware, Idaho, Kentucky, Louisiana, Maryland, Michigan, Minnesota, Montana, New Mexico, North Dakota, Oklahoma, Oregon, Pennsylvania, South Dakota and Wisconsin.

[3] California, Florida, Kansas, Maine, Massachusetts and Nebraska.

tions, and of individuals performing a social service. These exemptions are found with equal frequency among the states granting no constitutional power to classify property and among the states included in Table 32. These types of exemption are not considered in this study.[1]

Another important type of exemption is also omitted from Table 32. Many states have accorded exemption to types of property utilized in specific industries as an encouragement or indirect bonus to these industries. Thus, some states exempt farm machinery and implements in order to encourage agriculture. Outstanding examples of such encouragement to specific industries are the ten-year exemption of lime and atmospheric nitrogen manufacturing plants in Alabama, the ten-year exemption of new dwellings through local option in New York, and the three-year exemption to manufacturers of zinc oxide or metallic zinc from native ores in Wisconsin.

The two remaining types of exemption, intended to eliminate double taxation, either of income and property or of representative and basic property by the general property tax, are included in Table 32. These last two types of exemption are not limited to states providing for classification, but are dependent rather on other constitutional provisions intended to minimize double taxation. An example of the first type is the exemption accorded to crops of the year in the producers' hands, found in Idaho and Oklahoma among other states. The second type of exemption for the most part affects intangibles.

Most of the states levying income taxes exempt intangibles from property taxation. Five of the states[2] listed in Table 32 belong in this category. The two states which levy income taxes, but also tax intangible property, are Montana and Virginia. Both of these states provide light classified property taxes upon taxable intangibles, and Montana permits the deduction of debts from credits. Montana's income tax applies only to corporations and is a franchise tax.

In general, the exemption of intangible property is inciden-

[1] They are fully considered in National Industrial Conference Board, "Tax Burdens and Exemptions," 1923, Ch. V.

[2] Connecticut, Massachusetts, New York, North Dakota and Wisconsin.

tal to the general property tax system rather than an aspect of "classification." There are two ways in which the exemption of any class of intangibles may be legally effected: (1) by the absence of any provisions in the property tax laws which make that form of property specifically taxable, as in Missouri and New Mexico (corporate excess is in no case taxed unless the laws of the state specifically provide for its taxation); (2) by a provision of law specifically exempting the particular class of intangibles because the basic property itself or the property value under some other form is already being taxed.

As to the types of intangibles exempted, it is found that bank deposits, particularly savings bank deposits, are frequently exempted to the depositors since they are reached by the taxes on the banks and trust companies. Shares of stock in banks and public utilities are also frequently exempted to the owner, since their value is reached through the property tax on the special corporation franchises. Bank stock may be assessed to the bank or assessed in the name of the owner and taxed at the source. In both cases the shares are usually not returnable by the owner for taxation.

The other types of intangibles usually exempted from property taxation are: (1) shares of stock; (2) mortgages secured by real estate within the state; and (3) debts whose corresponding credits are assessed. The courts of the several states have frequently held that the property interest of shares of stock may be reached either by taxing the shares to the owner or by taxing the property represented by such shares. It is found that shares of stock are usually exempted to the owner when the property of the corporation is taxed in the state. The application of this principle varies according to the legislative and judicial temper of the state. The basic considerations are the amount of property having a taxable situs in the state and the distinction between foreign and domestic corporations.

In most states the resident owners of shares of stock in a domestic corporation pay no taxes on such stock. When the corporate excess is taxed, it is held that the value of the capital stock has been assessed, and the shares are thereafter exempt. In some cases, as in Alabama, the corporate excess

is assessed in the name of the owners of the shares, in proportion to their interest, and the tax is collected through the corporation. It is obvious that the choice of either of these two methods is, from the standpoint of the shareholder, a legal fiction, for the burden is the same, and the tax is paid directly out of the treasury of the corporations in either case. The principles involved are legal rather than economic.

In those states which do not provide for the taxation of corporate excess, the shares of stock in domestic corporations do not always fare so well in the hands of their owners. Two states at least, California and Oregon, permit only partial exemption, thus placing domestic stock in the same class as foreign stock. The assessed values of such shares are reduced by the proportion which the value of taxable property of the corporation in the state bears to the value of total property of the corporation. On the other hand, there are at least two states, New Jersey and Oklahoma, which place shares of stock in foreign corporations in the same class as domestic stock by exempting both completely, if any of the corporation's property is taxed within the state. In other states, however, the law is construed so as to produce the greatest amount of revenue, and shares of stock in foreign corporations are only partially exempt, as in California and Oregon. In some of the states foreign stock is taxed at full value to resident owners, while domestic stock is exempt.

The complete exemption of mortgages is rare. A few states include mortgages among the intangibles which are classified for taxation at a low fixed rate. Many states, however, including several states otherwise without the power to classify property for tax purposes, substitute special mortgage registry taxes for the property tax.

A very common provision, designed to avoid double taxation, is the allowance for deduction of debts from credits. This provision, however, offers opportunities for the evasion of taxes of which taxpayers frequently avail themselves, so that the privilege is subject to more or less limitation. The deduction is frequently disallowed when a state changes to a classified property tax system. When the deduction is permitted the evasion of taxes thereby induced may be corrected to some extent by special provisions. Merchants

and manufacturers are sometimes assessed on the average monthly value of the capital employed. This procedure removes the possibility of evading taxes on accounts receivable by increasing the indebtedness on the assessment day. The effect is the same when a corporation is assessed on its corporate excess, since in such cases the independent listing of accounts receivable, for purposes of assessment, is unnecessary.

Differentiating Ratios of Assessment

The two effective *systems* of classification are based respectively upon differentiating fractional assessments of separate classes of property and upon differentiating rates levied upon separate classes of property all assessed at full value. Montana makes exclusive use of the former method[1] while Minnesota combines it with the latter. Iowa provides for the uniform assessment, at 25% of full value, of all property not classified as to rate. In California the classification is limited to the fractional assessment of specified intangibles. This corresponds to the usual rate classification law. The burden is the same as a 2-mill tax where the local rate is 28.6 mills, and a 5-mill tax where the local rate is 71.5 mills. The California tax on classified intangibles will therefore vary between about 2 and 5 mills, according to the residence of the owner.

It is obvious that a system providing a progressive scale of assessment ratios could be used, by classifying property according to its yield value, in such manner that the property tax would roughly approximate an income tax. Such a system has not yet been attempted. There are two states, however, Montana and Minnesota, which provide a comprehensive schedule of assessment ratios. Productivity is not entirely the controlling basis, non-productive property being taxed in both states; probably political considerations have had no small part in determining the schedules. Minnesota classifies specified intangibles at a special three mill rate, and provides a classification of all other property by fractional assessment. The five classes of property defined are subject to assessment ratios between 10% and 50% of

[1] Prior to 1927 California had a similar system of classification.

full value. Montana defines seven classes subject to assessment ratios between 7% and 100%. The class of property assessed at 7% of full value includes the intangibles which are subject to the three mill rate in Minnesota. The groupings in the two states are somewhat different. The relative ratios of assessment for specified types of property also show marked differences.

It should be noted that agricultural tools and machinery and farm products are more highly favored in Minnesota than in Montana, although the former is the more industrialized.

Differentiating Tax Rates

While the classification system, based upon fractional assessments, prescribes a proportional tax burden for each type of property in the same taxing district, no such effect is obtained by classification according to rates. This is due to the fact that local rates must vary according to local needs, if revenue is to be adjusted to necessary expenditures. Rate classification, covering all types of property, occurs only in Kentucky, where a partial separation of state and local revenue is effected. Taxable property in Kentucky is divided into five classes, all of which are taxed by the state. Bank deposits are taxed only by the state at one mill. Agricultural implements, manufacturing machinery, raw materials and agricultural produce on hand, livestock, and intangibles other than bank deposits, franchises and the shares of banks, of trust companies and of domestic insurance companies are subject only to a five-mill rate for state purposes. Franchises, the shares of banks, trust companies and insurance companies, and all unspecified personalty are subject to the local rates in addition to the state tax of five mills. Real estate is taxed at three mills by the state in addition to the full local rate.

The other eighteen states classifying property for tax purposes by fixing a low mill rate, limit the use of this method strictly to intangibles. In ten[1] of these states, all taxable intangibles are classified for tax purposes.

[1] Iowa, Massachusetts, Missouri, Nebraska, New York, Pennsylvania, Rhode Island, South Dakota, Vermont and Virginia.

California permits only credits and shares of stock (except bank stock) to be taxed at the special rate of 1.45%. Massachusetts confines her personal property tax to savings, since intangibles are otherwise taxed under the income tax. For the same reason New York brings only bank stock under the property tax. Under the Missouri Constitution only intangibles specified by law are held to be taxable; the secured debts, subject to the special rate, are therefore the only intangibles taxed. The classified property taxes in the other seven states cover intangibles rather completely. Iowa, Nebraska and Virginia provide for the taxation of corporate excess and include it in the definition of classified intangibles. Rhode Island taxes corporate excess as a franchise tax at the same rate as the classified intangibles. Corporate excess and shares of stock taxed at the principal office of the corporation are, however, a type of intangible commonly excluded from the privilege of paying the fixed low tax in lieu of general property taxes.[1]

Seven[2] states, in addition to Kentucky, divide intangibles into two or more classes, each subject to a different rate, fixed by statute. Only two of these seven states, Vermont and Virginia, belong to the group of states which bring all taxable intangibles under their classification systems.

Special Taxes

The usual method of providing a rate classification for taxable property is to fix, by statute, a rate to be levied annually upon specifically defined property. When an intangible asset, however, is represented by a written instrument, four states employ an alternate method. Connecticut, Michigan, Missouri and Oklahoma, which classify only securities for tax purposes, require the registration of the security for the period of its duration. At the time of registration a tax is paid, based upon the duration of the security, at a rate which may be reduced to an annual basis. The property is then exempt from all further taxation. In certain cases the effect of such a tax may vary somewhat from an annual levy. In Missouri, the maximum rate is 1½ mills

[1] In Kansas, Maryland, Minnesota and Oklahoma.

[2] Connecticut, Maryland, Nebraska, New Jersey, Oklahoma, Vermont, Virginia.

per annum and 7½ mills for the duration of the instrument. A bond maturing in twenty years would therefore be taxable at a maximum rate of ⅜ of a mill per annum, payable in advance on the date of purchase if the bond should be owned until its maturity by the same taxpayer remaining under the jurisdiction of the state. The power of a state legislature to substitute a registration tax on securities for the general property tax need not depend upon constitutional provisions for classification, since such tax may rest upon the constitutional provisions for exemption or *for elimination* of double taxation of property.

The registration tax is generally applied to mortgages secured by real property within the state. It is used as a substitute for property taxes in some states which do not fall within the scope of Table 32, though it sometimes exists in addition to property taxes.[1] The rates are always lower than those for classified intangibles, particularly when prorated according to the duration of the mortgage. When, as in Oklahoma, the rate varies directly according to the number of years of duration of the mortgage, the effect is the same as a registration tax on a security. Mortgages subject to registration taxes are always limited to mortgages secured by real estate within the state. Other mortgages are classed as securities. Under a classified property tax, however, all mortgages are included on an equal basis.

The most common special property taxes are bushel taxes on grain, and tonnage taxes on vessels. Special methods of assessment include: the assessment of mines and wells on the basis of output, the assessment of merchants and manufactures on the average value of their stock or capital for the year, and the assessment of corporate excess or shares of stock (at the principal office of the corporations) by deducting the value of all tangible property of the corporation from the market or actual value of the capital stock. Such special methods of taxation or assessment are upheld by courts in states without the power to classify property for taxation on the ground that the legislature has the power to determine the best means of obtaining uniformity in taxation.

[1] In Kansas, by a 1927 law, secured debts must pay a registration tax of 1 mill and thereafter are subject to an annual tax of 1 mill.

Relative Burdens of the Illinois General Property Tax and of Classified Property Taxes

Were a classified property tax with low mill rates on intangibles substituted for a general property tax, it might appear to be a warranted assumption that a decrease in tax burden and a loss of revenue would result from the lower rates of the classified tax. Nevertheless, in spite of the lower rates on classified intangibles, such a substitution may lead to additional revenue, because of the common escape of intangibles from general property taxation.

Classified Property Taxes vs. General Property Tax

In comparing classified property taxes on intangibles with the taxation of intangibles under a general property tax law there are two main considerations: (1) the equitable distribution of the tax burden and (2) the revenue yield. The first of these may be measured in a general way by per capita assessments of intangibles and more effectively by the relative ratio of assessed values to total tangible wealth. Table 33 compares the per capita assessments of intangible property and ratios of assessment to total tangible wealth in states which use the system of classifying intangible property for taxation purposes with a group of states which do not attempt to remedy by this method the deficiencies of the general property tax. Table 34 gives a comparison of the per capita assessment of intangibles in cities which employ a classified property tax and in those which do not resort to classification.

It is evident from Table 33 that by either criterion the states with classification show, on the whole, the higher ratio of assessment to total tangible wealth. Only Montana, of the classified property tax states, shows a lower ratio than the average of the states which still employ general property taxes. Illinois has a lower per capita assessment than any state levying a classified property tax, and of this group, only Montana has a lower ratio of assessed value of intangibles to total tangible wealth.

Since intangible wealth is to a large extent concentrated in the cities, Table 34 is of special interest. The basis of comparison is the per capita assessment of intangibles. In

TABLE 33: COMPARISON OF PER CAPITA ASSESSMENT OF INTANGIBLES AND RATIOS OF ASSESSMENTS TO TANGIBLE WEALTH, STATES USING CLASSIFICATION OF PROPERTY FOR TAXATION PURPOSES AND THOSE NOT USING CLASSIFICATION, 1922[1]

States Having Classification	Per Capita Assessment of Intangibles	Estimated per Capita Wealth	Ratio of Assessment of Intangibles to Total Tangible Wealth
Connecticut	$94.61[2]	$3,614	2.63%
District of Columbia	768.19	3,879	19.80
Iowa	285.68[3]	4,274	6.68
Kentucky	248.60[4]	1,459	17.04
Maryland	184.49	2,665	6.92
Minnesota	167.86[5]	3,442	4.88
Missouri	108.78	2,903	3.75
Montana	20.62[6]	3,691	0.56
Nebraska	109.26	4,004	2.73
Pennsylvania	796.91[7]	3,187	25.00
Rhode Island	333.22	3,086	10.80
South Dakota	103.51	4,482	2.31
Virginia	144.82	2,050	7.06
States not Having Classification			
California[8]	$16.18	$4,007	0.40%
Colorado	51.71	3,285	1.57
Georgia	37.63	1,306	2.88
Illinois	**20.11**	**3,295**	**0.61**
Kansas[8]	117.97	3,493	3.38
Ohio	89.95	3,048	2.62
Oregon	46.90	4,182	1.12
Utah	15.78	3,247	0.49

[1] Data from official reports of states and from United States Bureau of the Census. Population taken as of 1920.

[2] Includes state registration and local assessments.

[3] Includes bank stock and other corporate stock taxes.

[4] Includes bank stock and bank deposit taxes.

[5] Mortgage registry tax not included.

[6] Includes tax on national bank stock and moneyed capital.

[7] Includes 4-mill county tax on intangibles and state taxes.

[8] Classification not adopted until 1925.

the cities employing the classified property tax the per capita assessment is lowest in Omaha. Nevertheless, Omaha's average of $249.23 is almost double that of Atlanta, which ranks highest among the cities adhering to the general property tax.

The classified property tax states and cities in these two tables have included under the heading of "intangibles as-

TABLE 34: COMPARISON OF PER CAPITA ASSESSMENT OF INTANGIBLES IN CITIES HAVING CLASSIFICATION WITH CITIES NOT HAVING CLASSIFICATION, 1922[1]

Cities in Which Intangibles Are Classified	Per Capita Assessment of Intangibles	Cities in Which Intangibles Are not Classified	Per Capita Assessment of Intangibles
Louisville, Ky.	$991.70	Atlanta, Ga.	$136.27
Newport, R. I.	933.83	St. Louis, Mo.	122.36
Duluth, Minn.	513.73	Portland, Ore.	88.38
Providence, R. I.	496.43	Cincinnati, O.	84.55
Des Moines, Ia.	470.50	Savannah, Ga.	83.38
Richmond, Va.	439.02	Cleveland, O.	75.48
St. Paul, Minn.	358.10	Chicago, Ill.	59.65
Baltimore, Md.	277.27	Toledo, O.	47.50
Minneapolis, Minn.	259.45	Salt Lake, Utah	41.82
Omaha, Neb.	249.23	Los Angeles, Cal.	35.88
		Denver, Col.	1.08

[1] Data compiled from official reports of cities. Population taken as of 1920.

sessed" only those types of intangibles which come specifically under the classified tax law. On the other hand, in the general property tax states and cities, the intangibles assessed include all types of intangible property. Were both groups upon an exactly comparable basis, the assessment averages for intangibles would be even higher in the classified property tax cities and states than the figures shown in Tables 33 and 34.

Table 35 gives a comparison of assessments and revenues from classified intangibles in states which use the classified property tax with the assessment and revenue from the corresponding classes of intangible property in Illinois. The figures in the Table take account of the variation in types of intangibles which are subject to low mill rates. The assessment and revenue figures are shown in actual value and in proportion to the total assessment and revenue.

Table 35 confirms the conclusion of Tables 33 and 34 that classified property tax systems result in a more thorough assessment of intangibles than the general property tax, as it is at present administered in Illinois. In each of the selected classified property states in Table 35, with the exception of Nebraska,[1] the value of intangibles assessed is greater than

[1] The Nebraska tax law in 1923 provided for the taxation of the classified intangibles at one-fourth of the local rate. The system did not prove a success, as the Kansas Tax Commission later took pains to point out (Kansas Tax Commission, "Ninth Biennial Report," p. 11). The Nebraska system was changed in 1925 to a flat low rate on intangibles, as in other states.

TABLE 35: ASSESSMENT AND REVENUE FROM CLASSIFIED INTANGIBLES IN SELECTED STATES COMPARED WITH ILLINOIS, 1923

States Levying Classified Property Tax	Full Assessed Value of Intangibles Classified	Per Cent Intangibles Classified Were of Total Assessment	Revenue from Intangibles Classified[1]	Per Cent Revenue from Intangibles Was of Total Property Tax Revenue[2]	Per Cent Revenue from Intangibles Was of Total Revenue
	(Corresponding Figures for Illinois in Boldface Type)				
Iowa	$660,752,690	17.03	$3,964,516[3]	3.71	3.42
	292,217,656	**4.09**	**9,643,182**	**4.09**	**2.97**
Maryland	287,942,005	22.98[4] / 19.63[5]	1,295,739[3]	3.24	2.32
	20,376,700	**0.59**	**672,431**	**0.59**	**0.21**
Massachusetts	915,136,440[6]	15.33	4,575,682	2.73[7] / 2.52[8]	1.96
	119,314,828	**1.67**	**3,937,389**	**1.67**	**1.21**
Minnesota	405,480,155[9]	8.05	1,843,054[10]	1.57	1.26
	172,902,828	**2.42**	**5,705,793**	**2.42**	**1.76**
Nebraska (1924)	128,282,616	4.66	..	..	..
	267,352,762	**3.74**	..	..	..
Virginia (total)	466,982,920	39.61	2,543,863	54.28[11]	4.72
	292,217,656	**4.09**	**9,643,182**	**26.97**	**2.97**
(Bonds, stocks, money and credit)	256,566,114	21.76	784,497	16.73	1.46
	166,214,160	**2.32**	**5,485,067**	**15.34**	**1.69**
(Stock of foreign corporations)	58,525,699	4.96	468,206	9.99	0.87
	6,688,668	**0.10**	**220,726**	**0.62**	**0.07**
(Corporate excess)	151,901,107	12.89	1,291,160	27.56	2.39
	119,314,828	**1.67**	**3,937,389**	**11.01**	**1.21**

[1] The corresponding revenue for Illinois computed by using the average tax rate estimated by dividing the total levy by the full value of assessed property.

[2] The general property tax levies, used as a basis for this ratio, are exclusive of levies on classified intangibles.

[3] Computed by multiplying the assessment by the statutory rate.

[4] Ratio to full value of property assessed for state purposes.

[5] Ratio to full value of property assessed for county purposes.

[6] Computed by multiplying the revenue by the inverse of the tax rate (5 mills).

[7] Ratio to total revenue from tangible property.

[8] Ratio to total revenue from tangible property and income tax.

[9] Does not include value of registered mortgages. Mortgages are included in Illinois figures given for comparison.

[10] Includes revenue from mortgage registration fees.

[11] The ratios in this column for Virginia are computed by dividing the state revenue from classified intangibles by the state revenue from general property taxes. The Illinois figures, given for comparison, are total revenue from the same intangibles to state revenue from general property taxes. The ratios of state revenue for Virginia based upon **total** revenue from general property taxes in 1923 for the four items in the order given would be 7.51%, 2.32%, 1.38% and 3.81%. These ratios should be increased by inclusion of local revenues from classified intangibles. With such additions these ratios would be comparable with the ratios for Illinois, since Illinois tax rates are uniform as to all classes of property.

the assessed value of corresponding intangibles in Illinois. In all of the classified property tax states the ratio of the assessed value of the selected intangibles to the assessed value of tangibles is higher than in Illinois. A considerable part of the difference is necessarily due to the more effective fiscal administration in these states. Table 33, however, showed that the classified property tax states as a group should be rated higher than the property tax states. The change from a system of general property taxation to one of classification is often accompanied by a stiffening of administration; the force of the reform movement that effects the constitutional and legislative change often carries over into the administrative field. Nevertheless, there would appear to be a differential improvement that must be attributed to the change in systems, over and above the improvement resulting from more effective administration.

The experience of Virginia illustrates the advantages in assessment to be expected from a classified property tax on intangibles. A comparison of assessments under the old system and under the system of classification is found in the 1924 report of the Auditor of Public Accounts of Virginia, which gives the figures for 1914 and 1924. The data show an increase of 98.18% in assessed valuations of all property, and an increase of 197.18% in assessed valuations of money and all other classified intangibles. In 1914, although 100% assessment of intangibles had by no means been reached, intangibles comprised 15.14% of the total assessment. In 1924 the assessment of classified intangible property amounted to 22.70% of the total. This experience has been common to all the states which use the classified property tax system.

Although the ratio of intangible values assessed to the total assessment was higher in five of the classified tax states than in Illinois, it is to be noted that three out of these five states—Iowa, Minnesota and Virginia—obtained less revenue from their low mill taxes on classified intangibles than did Illinois from its general property tax on the corresponding groups of intangible property. The assessed value of intangibles in Iowa was 126.1% higher than the corresponding Illinois assessment, yet Illinois received 143.2% more tax revenue. Minnesota's assessment of classified intangibles

was 134.5% greater than in Illinois, but Illinois' revenue from the corresponding intangibles was 209.6% greater. The assessment of classified intangibles in Virginia was 59.8% higher than Illinois. The Virginia tax receipts are not so directly comparable with those of Illinois, but here also the assessment was higher and the collections lower than in Illinois.

If the proportions of revenue derived from intangibles and from tangibles be compared, it is seen that the state government in Virginia is bound to receive a much larger proportion of its property tax revenue from intangible property taxed at low rates than Illinois does from these same classes of intangibles taxed at full rates. Whereas Illinois receives over three times as much revenue from its tax on intangibles as Minnesota, the ratio of revenue from intangibles to the revenue from tangibles in Illinois is only slightly over one-half greater than in Minnesota.

In both Iowa and Minnesota, the relatively low yield of the low mill taxes on classified intangibles is influenced by the fact that these two states are primarily agricultural states, with a much lower proportion of taxable intangibles than Illinois. The Minnesota tax in particular has been a marked success from the standpoint of revenue yield. In 1910, under the old general property tax law, the assessment of money and credits was $13,919,806, and the revenue from this source, at a 28-mill rate, was $379,754. In 1911, with a three-mill rate and a more efficient administration, the assessment rose to $115,481,807, and the revenue declined only to $346,107. In 1912 it had increased to over $400,000. In 1924, the Minnesota tax revenue from money and credits was $1,216,440. It is significant that the assessment of corporate excess, not brought under the low mill rates, has declined steadily since 1910, while the assessment of money and credits has been increasing.

There is evidence that Kentucky,[1] Montana,[2] Nebraska and Connecticut during the early years of their experience with the classified property tax, and possibly Iowa,[3] received less revenue from low mill rates on intangibles than from the

[1] Leland, "The Classified Property Tax," *op. cit.*, p. 439.
[2] *Ibid.*, p. 485.
[3] *Ibid.*, p. 575.

old system of general property taxes. It is felt that the main cause of this decline in revenue was a lack of the right type of administration. Assessment by local officials, particularly when no part of the revenue goes to the local authorities, is likely to be inefficient.

There is no basis for direct comparison of the effectiveness of the two systems of taxing intangible property in Oklahoma, Maryland, Rhode Island[1] and Pennsylvania,[2] but the last two states receive such a considerable proportion of their revenue from classified intangibles that there can be little doubt as to the superiority of the classified property tax system. Virginia,[3] South Dakota[4] and, in more recent years, Connecticut,[5] have considerably increased their revenue from intangible property by using the system of classification.

On the whole, a more equitable and uniform assessment of intangibles under a classification tax law is apparent, and, with centralized administration, a better revenue yield is likely to result from it. Under a classified property tax, intangibles may yield a very considerable proportion of the state revenue, as in Virginia, Maryland and Rhode Island. The state government of Pennsylvania has, for some time, been largely dependent upon this source of revenue. It is wise to remember, however, that though a classification law may make effective administration easier, it cannot be used as a substitute for efficient administration.

It should also be borne in mind that the abrogation of the principle of strict uniformity opens the road to legislative log rolling and jockeying by interested groups and classes, each endeavoring to have some particular type of property placed in a low-rate or low-assessment class. Moreover, it tends to stamp upon the unclassified types of property the injustice of a discriminatingly high rate. Its sole justification is that in practice it does draw an increased tax revenue from classes of property which would otherwise evade taxation altogether.

Income Tax Laws in Various States

Legal problems of constitutionality, practical problems of accounting and administration, and general considerations

[1] *Ibid.*, p. 577. [2] *Ibid.*, pp. 496–520. [3] *Ibid.*, p. 408.
[4] *Ibid.*, p. 605. [5] *Ibid.*, p. 526.

of advisability frequently lead to separate state income taxes upon corporations and upon individuals. Of the fifteen states with income taxes in 1926, three[1] provide for the taxation of corporate income only, and an equal number[2] tax only personal income. Two states,[3] taxing both individuals and corporate income, do so by means of separate laws. The seven[4] remaining states cover individuals and corporations by the same law, but all of them have special provisions applicable to corporations only. For the purpose of comparison, state income tax laws may be analyzed according to three main aspects: (1) the definition and determination of the portion of the net income subject to taxation; (2) the types and amount of exemption allowed; and (3) the tax rates.

Corporation Income Taxes

The twelve state corporation income tax laws, in effect in 1926, are analyzed in Table 36.

The State income taxes levied upon corporations are frequently entitled corporate franchise taxes or are given a place in state tax systems in lieu of such franchise taxes. Of the twelve states which tax the income of corporations, two states[5] do not levy franchise taxes, while five states levy the income tax as a franchise tax. Connecticut, Montana and Tennessee have no income tax on personal incomes, but they circumvent constitutional limitations, in the case of corporations, by making net income the *measure* of the corporation franchise tax. Massachusetts and New York, by levying the income tax as a franchise tax, relieve corporations from the burden of an additional tax and, at the same time, avoid questions of constitutionality. The other five states[6] levy a direct income tax on corporations in addition to a franchise tax of one type or another.

[1] Connecticut, Montana, Tennessee.

[2] Delaware, New Hampshire, Oklahoma.

[3] Massachusetts, New York.

[4] Mississippi, Missouri, North Carolina, North Dakota, South Carolina, Virginia, Wisconsin.

[5] North Dakota's franchise tax, based upon corporate excess, was recently declared unconstitutional. Wisconsin does not provide any.

[6] Mississippi, Missouri, North Carolina, South Carolina and Virginia.

Table 36: State Income Taxes on Corporations (Except Public Service and Finance Corporations), 1926

(Source: National Industrial Conference Board)

State	Legal bases of tax (a) In addition to corporate franchise tax. (b) No franchise tax for such corporations in the state. (c) Franchise tax measured by income.	Bases of assessment and levy of tax	Exemptions	Method of apportionment (a) Mandatory.[1] (b) Prescribed by law with proviso that independent accounting or alternative method may be accepted by administrative officials.	Rate of tax (a) Flat rate. (b) Progressive rate. (c) Minimum tax. (d) Minimum tax rate when franchise tax is measured by income.
Connecticut	c	Net income for fiscal or calendar year next preceding upon which the corporation is taxed by the United States apportionable to Connecticut. No deduction allowed for loss in prior years.		(a) corporations deriving profits from sale of tangible property, ratio of average monthly fair cash value of tangible property in Connecticut to total tangible property; all others, ratio of gross receipts in Connecticut to total gross receipts.	(a) 2%. (c) $20.
Massachusetts	c	Net income apportionable to Massachusetts, allowing, after apportionment, a deduction of income in the proportion that real estate and machinery in the state bears to the total assets in the state.	See statement of deduction allowed in preceding column.	(b) profits from sale of capital assets, allocated at situs of assets; remainder apportioned in three parts: ⅓ by ratio of tangible property in Massachusetts to total tangible property; ⅓ by ratio of expenses in state to total expenses; ⅓ by ratio of gross receipts in state to total gross receipts.	(a) 2½%. (d).[2]
Mississippi	a	Domestic corporation and foreign corporations doing all their business in state, total net income; foreign corporations do-	$1,000 (foreign corporations—proportion of $1,000 that net income in state bears to total net income).[3]	(b) foreign corporations doing part of their business in state—after allocating to state the income in Mississippi from deposits, from rents and royalties, from sale of capital assets and	(b) 1% on first $1,000, 1½% on following $1,000, 2% on following $3,000, 3% on following $5,000, 4% on following

		ing part of business in state, net income within state.		from "other" sources, the remainder is allocated: manufacturing corporations—average of ratio of cost of capital assets in state to total capital assets, and expenditure for labor in state to total expenditures for labor; trading corporations—ratio of cost of sales in state to cost of total sales (turnover of stock, measured by cost of sales, also requested).	$15,000, 5% on taxable income in excess of $25,000.
Missouri	a	Domestic corporations, total net income; foreign corporations, net income from sources within state.		To be determined by state Auditor. Domestic and foreign corporations file the same return.	(a) 1%.
Montana	c	Net income from business in state. Foreign, as well as domestic corporations doing all their business within the state, are taxed on entire net income.		(a) expenses are deducted from gross earnings in Montana in the proportion that total expenses bear to total gross earnings; interest and taxes paid are allowed as a deduction in the proportion which gross income in Montana bears to total income.	(a) 1%.

[1] Though the laws of Montana, North Carolina and South Carolina are couched in mandatory terms, the question of the discretionary powers of the administration has not been contested, as it has in Connecticut.

[2] The Massachusetts income tax together with a corporate excess tax compose the state's corporation franchise tax. The minimum tax for any corporation is defined by statute and may be summarized as follows:

Corporations deriving profits from tangible property—1/20% of gross receipts in state.
Corporations whose books do not reflect true earnings—1/10% of gross receipts in state.
Domestic corporations—1/20% of fair cash value of the capital stock.

[3] This is the provision of the Tax Commission. The law provides for the apportionment of exemptions on the basis of *gross* income.

Table 36: State Income Taxes on Corporations (Except Public Service and Finance Corporations), 1926—(*Continued*)

(Source: National Industrial Conference Board)

State	Legal bases of tax (a) In addition to corporate franchise tax. (b) No franchise tax for such corporations in the state. (c) Franchise tax measured by income.	Bases of assessment and levy of tax	Exemptions	Method of apportionment (a) Mandatory. (b) Prescribed by law with proviso that independent accounting or alternative method may be accepted by administrative officials.	Rate of tax (a) Flat rate. (b) Progressive rate. (c) Minimum tax. (d) Minimum tax rate when franchise tax is measured by income.
New York	c	Net income from sources within state.		(b) Ratio of sum of tangible property, average monthly value of accounts receivable in New York and average value of shares of stock allocated to New York[4] in proportion to total value of these items.[5]	(a) 4½%. (c) $10. (d)[6]
North Carolina	a	Domestic corporations, entire net income; foreign corporations, proportion of net income derived within state.		(a) foreign corporations deriving profits from sale of tangible property—ratio of tangible property in state to total tangible property; foreign corporations deriving profits from holding or sale of intangible property—ratio of gross receipts in state to total gross receipts.	(a) 4½%.
North Dakota	b	Net income in North Dakota.		(b) gains not connected with business and gains from sale of capital assets have situs where business and property is situated; interest, dividends, rents and royalties connected with business in state, allocated to state; remainder as follows: manufacturing corporations—½ by ratio of average value of tangible property in state to total tangible property and ½ by ratio of business in state to total business ("Business includes expenses and	(a) 3%.

				receipts"); other corporations—special rules made by tax commission.	
South Carolina	a	Domestic corporations and foreign corporations doing entire business in state, entire net income; foreign corporations doing part of business in state, net income from sources within state.		(a)income having a definite situs is first allocated; remainder as follows: manufacturing corporations, ratio of average value of real estate and tangible property in state to total tangible property; corporations trading in personal property, ½ by ratio of tangible personal property in state to total tangible personalty and ½ by ratio of gross sales in state to total gross sales; when there is no tangible personal property or the corporation is engaged in buying and selling property, ratio of gross sales in state to total gross sales. A rule shall not be considered inapplicable merely because all of the real estate and tangible personalty is found to be outside the state or because the gross receipts are found to have been outside the state.	(a) 4%.
Tennessee[7]	c	Net earnings arising from business done wholly within the state.	Credit is allowed for the amount paid to the state as a franchise or special privilege tax under other laws.	No provision of law. The administration requires apportionment of the net income as reported to the U. S. Internal Revenue Bureau by the ratio of gross sales in state to total gross sales.	(a) 3%. (d) the amount of other state franchise or privilege taxes.

[4] The value of shares of stock in other corporations allocated to New York is determined by multiplying the total value of stock in other corporations by the ratio of physical property in New York represented by such stock to total physical property represented by such stock.

[5] The New York State Tax Commission is empowered, in cases where the segregation of assets is considered a poor criterion for apportionment, to use gross receipts within and without the state as a basis.

[6] The minimum tax is equivalent to the tax under the alternate franchise tax law—one mill on each dollar of that proportion of value of the capital stock which gross assets in the state bear to total gross assets.

[7] The Tennessee Constitution does not permit the taxation of income. The tax is levied as an excise tax on corporations for the privilege of doing business, and "net earnings" are made the basis of the measure of the tax. There are no further provisions establishing the definition of "net earnings" or of their apportionment to the state.

Table 36: State Income Taxes on Corporations (Except Public Service and Finance Corporations), 1926—(*Continued*)

(Source: National Industrial Conference Board)

State	Legal bases of tax (a) In addition to corporate franchise tax. (b) No franchise tax for such corporations in the state. (c) Franchise tax measured by income.	Bases of assessment and levy of tax	Exemptions	Method of apportionment (a) Mandatory. (b) Prescribed by law with proviso that independent accounting or alternative method may be accepted by administrative officials.	Rate of tax (a) Flat rate. (b) Progressive rate. (c) Minimum tax. (d) Minimum tax rate when franchise tax is measured by income
Virginia	a	Net income from business in state.	Domestic corporations doing no business in state.	(b) [8] ratio of sum of gross receipts and fair market value of real estate and physical property in Virginia to total gross receipts, real estate and physical property ("gross receipts in state" are receipts from persons in state, wherever paid, on goods originating in state); business of a domestic corporation at a foreign branch is allocated outside the state.	(a) 3%.
Wisconsin	b	Net income from business in state.		(b) [9] income following situs of property or residence of recipient is first definitely allocated; remainder apportioned in three parts: ⅓ by ratio of tangible property in state to total tangibles; ⅓ by expenses of manufacturing, merchandising or mining organizations in state to total expenses (including materials, wages and overhead); ⅓ by ratio of sales in state to total sales.[10]	(b) 2% on first $1,000, 2½% on following $1,000, 3% on following $1,000, 3½% on following $1,000, 4% on following $1,000, 5% on following $1,000, 6% on all income in excess of $6,000. Surtax of ⅙ regular rates on taxable income in excess of $3,000.

[8] Virginia encourages a separate accounting.

[9] Wisconsin encourages a separate accounting.

[10] Where average of three ratios is inapplicable, any two may be used.

Provisions for a minimum tax occur only where net income is made a measure of the corporate franchise or excise tax. Connecticut provides for a minimum tax of $20. Massachusetts estimates the minimum tax on the basis of gross receipts and, in addition in the case of domestic corporations, on the alternative basis of the value of the capital stock. New York makes an alternative franchise tax, based on capital stock, the measure of the minimum tax on corporations subject to the income tax. The Tennessee law is to the same effect, since the amount paid to the state under other franchise and privilege tax laws is credited toward the income tax assessed. The only state levying an income tax as a corporate franchise tax, which does not provide for a minimum tax, is Montana.

In defining the net income subject to state taxation, there is one legal limitation which affects all states uniformly. Under the federal Constitution, interstate commerce is outside the jurisdiction of any particular state. As a result all state income tax laws provide for the taxation of foreign corporations on their *net income derived within the state*. With respect to domestic corporations, the limitation does not apply strictly, yet eight of the twelve states which tax the net income of corporations, make the same provision for domestic corporations as for foreign. It is a striking fact that none of the states which taxes corporate income under a franchise tax, taxes the income of domestic corporations derived from sources without the state. The Supreme Court of the United States has consistently held that state franchise taxes upon domestic corporations are not subject to limitation by interstate commerce activities of the corporation. The reasons for taxing only the income within the state of domestic corporations are, therefore, of an extralegal nature. Virginia is the only state, permitting the apportionment of the net income of domestic corporations, which exacts a franchise tax in addition to the income tax. Strangely enough, this example offers the key to the situation.

Virginia is one of the states which vies with Delaware for the revenue to be derived from affording a domicile for corporations. Its laws provide for a very light franchise tax on domestic corporations which do no business in the state

and exempt them from all other taxation. If domestic corporations which do a large interstate business, part of it in Virginia, were taxed on their entire net income derived in Virginia, it would obviously become profitable for such corporations to organize under the laws of a state like Delaware and do business in Virginia as qualified foreign corporations. The state of Virginia would thus gain nothing in its income or property taxes and would lose a part of the corporate franchise revenue. The other seven states, which accord the same treatment to domestic and foreign corporations would be similarly threatened by the abandonment of domestic charters in exchange for the privilege of qualifying as foreign corporations. This would be particularly true of such industrial states as Connecticut, Massachusetts, New York and Wisconsin. The loss of revenue thus sustained by loss of organization fees might be balanced, or even exceeded, by additional revenue from corporations which would not find it advisable to organize in another state. This, however, would involve a redistribution of the corporate tax burden which would hardly be desirable. Moreover, the loss of state jurisdiction over a large part of corporate business activities would be involved.

The threat against the continued domestic existence of corporations is taken into account by the tax laws of two states[1] which tax the entire net income of domestic corporations. These states assess foreign corporations which *do all their business within the state* on the same basis as domestic corporations—a provision which would not follow from the law, because the situs of property would otherwise have to be taken into consideration. Missouri provides for no indirect method of apportionment, so that the same effect must follow from requirement of independent accounting of the business transacted within the state by foreign corporations. North Carolina is thus the only state which fails to provide against the possibility of having its domestic corporations take up their residence in other states.

When only the net income derived within the state is taxed, there are apparently only two ways of determining the taxable income of corporations: (1) by an independent accounting for

[1] Mississippi and South Carolina.

business done within the state and (2) by an indirect method of apportioning the entire net income. There is no state income tax law which makes an independent accounting mandatory. Two states, however, do not prescribe any method of apportionment. Of these, Missouri, as stated above, requires the same returns of both foreign and domestic corporations, thus making an independent accounting necessary. The administrative officials in Tennessee require apportionment on the basis of gross receipts. The remaining ten state income tax laws prescribe an indirect method of apportionment. In Connecticut, the method prescribed by law has been held to be mandatory, allowing the tax commission no discretion in the use or correction of formulæ. The income tax laws of Montana, North Carolina and South Carolina are also apparently mandatory, but the intent of the law has never been interpreted by the courts. The remaining six states permit the administrative officials more or less discretion in determining the precise formula to be applied in a particular case. Of these, the New York law imposes the greatest limitations upon the discretion of the tax commission. The commission may merely choose between the segregation of assets or of gross receipts as a basis for apportionment. All the other states permit an independent accounting, if satisfactory to the administrators, as an alternative to the indirect method prescribed by law, and also permit variations or corrections in the prescribed formulæ to suit the particular case in hand. Virginia and Wisconsin particularly encourage a separate accounting of business transacted within and without the state.

All the states whose income tax laws provide for an indirect method of determining the net income taxable within the state require the apportionment of the entire net income, except Montana. This state requires the apportionment of the total expenses, interest and taxes, which are to be deducted from the gross earnings *within the state*. The Montana law thus requires an independent accounting of gross income within the state, but will not permit a separate accounting of expenses within the state. The methods of apportioning entire net income, however, preclude the necessity of any separate accounting.

The prescribed methods of apportionment of net income are, of course, indirect methods of allocating net income within the state. A state law, providing for the taxation of income derived within its borders, presents the administrative problem of determining such income. Few business enterprises of any appreciable importance are confined within state boundaries. Consequently, only a small proportion of business establishments keep their accounts or can carry on their business in such manner as to make an independent accounting of income within the state directly ascertainable. Methods of apportionment provide indirect estimates of the income attributable to the state. An income tax, purporting to tax only the income within the state, aims, nominally at least, to determine such taxable income with the highest degree of accuracy attainable. This is evidenced by the fact that almost all states permit an independent accounting or adjustments in the method of apportionment. Most states also provide for the independent allocation of certain types of income, apportioning only the remainder. Types of income required to be definitely allocated in the various states are: (1) income derived from the sale of capital assets; (2) interest, dividends, rents and royalties; and (3) gains not connected with the regular course of business. Two states, Mississippi and Wisconsin, make the general provision that all income which can be given a definite situs shall first be allocated and the remainder apportioned.

Three of the four states[1] which provide a mandatory method of apportionment and New York, which limits the discretion of its tax commission rather strictly, do not provide for the allocation of any income directly, but apportion all of it. In each of these states, however, an attempt is made to provide a method suitable to the type of income, or business. Thus Connecticut and North Carolina provide distinct methods of apportionment for corporations deriving income from the sale of tangible property and those deriving income from the holding and sale of intangibles. The New York law applies only to the former class of corporations, but the state tax commission exercises discretion as to the applicability of either of the two methods. Montana distinguishes

[1] South Carolina is the exception.

between the method of apportioning interest and taxes paid, and the apportionment of other expenses.

The one remaining state that does not provide for the direct allocation of any class of net income is Virginia, which encourages a separate accounting, and further provides for the allocation outside the state of the income derived from a foreign branch of a domestic corporation.

There are three bases most commonly used to determine the ratio of apportionment of income to the state: (1) tangible property; (2) expenses; and (3) gross receipts. One or more of these may be used by any state for a particular class of corporation. When more than one is used, the usual method is to take the ratios independently and give each equal weight.[1] Virginia, however, takes one ratio of the gross receipts and tangible property within the state to the total from all sources. When only one ratio is used for each type of corporation,[2] the tangible property ratio is applied to corporations deriving profits from the sale of tangible property, and gross receipts is the basis for corporations deriving profits from the holding or sale of intangibles. Mississippi and South Carolina have a different classification, distinguishing between manufacturing and trading corporations. Tennessee alone presents no differentiation of methods, the administrators providing that all apportionments be made on the basis of gross receipts.

The method of apportionment in Mississippi and New York is somewhat different from the usual. Mississippi multiplies the income of a manufacturing corporation, subject to apportionment, by the average of the ratios of cost of capital assets within the state to cost of total capital assets and of expenditures for labor within the state to total expenditures for labor. The apportionable income of trading corporations is multiplied by the ratio of cost of sales within the state to total cost of sales. New York includes in its basis of apportionment not only tangible property but also accounts receivable and shares of stock of other corporations. The latter offers particular administrative difficulties, because the allocation of the value of shares of stock in other cor-

[1] Massachusetts, Mississippi, South Carolina, Wisconsin.

[2] Connecticut and North Carolina.

porations, attributable to New York, depends upon the segregation of the assets of the "other corporations."

The final consideration in determining the net income, subject to state taxation, is the factor of exemption. Virginia exempts the entire net income of domestic corporations doing no business in the state—a condition which is quite consistent with other aspects of its income tax law and with its corporation and tax laws in general. Massachusetts allows the deduction, from the net income within the state, of the income attributable to property taxed in Massachusetts, that is, to real estate and machinery. The proportion of net income deductible is determined by the ratio of real estate and machinery within the state to the total assets in Massachusetts.

The other types of net income which are exempted in the various states fall into three main classes:

(1) An exemption, by statute, of a flat amount of the net income as determined under the law. This type of exemption was treated fully in Table 36.

(2) The exclusion of income from certain types of investment or sources. This covers, in the various states, gifts, bequests, insurance premiums, interest on obligations of the United States, the state or its political subdivisions, or from deposits in banks within the state, dividends from corporations whose income has been already taxed in the state and similar matters. The items are sometimes specifically defined as exemptions, sometimes as exclusions from gross income and, at other times, as deductions. In order to complete the list for each state, it would be necessary to relate the deductions allowed to the items included in gross income and analyze the prescribed forms of income reporting for each state.

(3) Exemptions closely concerned with prescribed or permissive methods of accounting and with the type of business taxed. They involve such factors as the conditions under which certain losses are deductible from gains in any year, the income appropriated to reserve, the methods of determining gain or loss, the apportionment of discounts to any year, and similar issues of business and accounting practice.

The exemption of a flat amount of net income of cor-

porations is almost universally absent from the state income tax laws. Mississippi alone exempts $1000 for corporations which pay taxes on the entire net income and the proportional share of this amount in the case of foreign corporations according to the proportion that their taxable income bears to total net income.

The tax rates are the final factor to be considered. The minimum tax is an aspect of the use of the income tax as a corporate franchise tax. A flat rate upon the net income of corporations is usually provided, Mississippi and Wisconsin being the only states with progressive rates. It may be noted that neither of the states, with a progressive income tax for corporations, levies it as a franchise tax. State constitutions generally require that the corporate franchise tax be uniform.

Comparison of Corporation and Personal Income Taxes

A comparison of the personal income taxes of the twelve states which levy such taxes is presented in Table 37. Striking differences between personal and corporate income taxes are evident. Though all twelve corporate income tax laws cover foreign as well as domestic corporations, only eight[1] of a like number of personal income tax laws cover income received by non-resident individuals. New Hampshire, levying its personal income tax solely on intangibles, must limit the application to residents, since the situs of intangibles for purposes of taxation is commonly construed to be the residence of the owner. The same situation exists in Massachusetts in so far as it taxes the net income from intangibles and from trading in intangibles. Delaware and North Dakota are the other two states which tax residents on their net income but do not tax non-residents.

In states which tax the net income of non-residents, only that part of the income derived from sources within the state is taxable. Only two states, Mississippi and North Carolina, however, provide an indirect method of allocation of net income to the state. This method can be reasonably applied only to incomes from business or trade. Since it is

[1] Mississippi, Missouri, New York, North Carolina, Oklahoma, South Carolina, Virginia, Wisconsin.

Table 37: State Taxation of Personal Income, 1926

(Source: National Industrial Conference Board)

State	Personal Income Subject to Tax (a) Of residents (b) Of non-residents	Personal Exemptions[1]			Credits (a) Residents (b) Non-residents	Tax Rates
		Individuals	Married couple or head of family	Each dependent (a) Child (b) Incompetent (c) Parent (d) Unqualified		
Delaware[2]	(a) Entire net income.	$1,000.	$2,000.	None.		First $3,000—1%. $3,001–$10,000—2%. $10,001 and over—3%.
Massachusetts	(a) Net income from intangibles[3]: interest and dividends.	$1,000, if total income of individual is not over $1,000, or if total combined income of married persons is not over $1,500, provided that the tax may not reduce the income below these figures.				6%.
	(a) Excess of gains over losses from trade in intangibles.					3%.
	(a) Entire net income,[4] less 5% of assessed value (less mortgages) of tangible property wherever situated.	$2,000.	$2,500.	(a) under 18, (c) $250.		1½%.
		Maximum total exempt—$3,000.				
Mississippi	(a) Entire net income. (b) Net income from property, business, trade or occupation within the state, apportioned as in the case of corporations.	$1,000.	$2,000.	(a) under 18 or a student at a school or college, (b) $200[5] (no exemptions for dependents of head of family).		First $1,000—1%. $1,001–$2,000—1½%. $2,001–$5,000—2%. $5,001–$10,000—3%. $10,001–$25,000—4%. $25,001 and over—5%.
Missouri	(a) Entire net income. (b) Net income from all sources within the state.	$1,000.	$2,000.	(a) under 18, (b) $200.	(a) Deduction from the Missouri tax of taxes paid to a foreign state, but no more	1%.

					than 1% of the income taxed by the foreign state allowed as deduction.	
New Hampshire	(a) Interest and dividends from intangibles except savings bank deposits.	$200.	$200.	None		Average rate in the state of all property taxes for the year in which the income was received.

[1] Includes only the exemption of specified amounts of income.

[2] The Delaware Income Tax Act of 1921 also provides for the taxation of corporations doing business in the state on the basis of "invested capital."

[3] Income from intangibles taxable in Massachusetts includes:

a. Interest from bonds, notes, money at interest and all debts due.

b. Dividends from shares in foreign corporations.

c. Dividends from shares in partnerships, represented by transferable shares, except partnerships whose income is from exempt sources, or taxed to the partnership at the same rate, after deduction of exemptions.

Income from exempted intangibles includes:

a. Interest from:

1. Savings bank deposits in Massachusetts or New Hampshire and in any other state which exempts the income from its residents' deposits in Massachusetts.
2. Bonds, notes and certificates of indebtedness of the United States, of Massachusetts, or of any of its political subdivisions, which are exempt from property taxation.
3. Loans secured by mortgage on Massachusetts real estate.
4. Loans made by pawnbrokers.

b. and c. Dividends from foreign banks and from foreign public utilities taxed in Massachusetts on their franchises. Deductions allowed include: Interest on debts, except those secured by mortgages or tangible property, owed by persons dealing solely in intangibles and debts owed by others unless secured as above or on account of which the taxpayer may claim exemption under his other income taxes. If, however, the deductions for such debts on the taxpayer's other income tax exceed his income under the other tax, the excess may be deducted from his income from intangibles.

In apportioning deduction of interest, the amount of total interest payments allowed is determined by the ratio of taxable income from intangibles to total income from all intangibles.

[4] Income from intangibles taxable under other Massachusetts laws is not taxed as personal income.

[5] Non-residents are entitled to an exemption measured by the ratio of their gross income from Mississippi to their entire gross income.

TABLE 37: STATE TAXATION PERSONAL INCOME, 1926—(*Continued*)

(National Industrial Conference Board)

State	Personal Income Subject to Tax (a) Of residents (b) Of non-residents	Personal Exemptions: Individuals	Personal Exemptions: Married couple or head of family	Personal Exemptions: Each dependent (a) Child (b) Incompetent (c) Parent (d) Unqualified	Credits (a) Residents (b) Non-residents	Tax Rates
New York	(a) Entire net income. (b) Entire net income from property and business or occupation in New York.	$1,500.	$3,500.	(a) under 18, (b) $400.	(b) If taxed on income in New York by state or country of residence, deduction of such proportion of the tax payable in the other state as income taxable in New York bears to total income upon which a tax is payable in such other state or country, provided—(1) such state provides similar exemption for residents of New York, or (2) such state taxes income of its residents and exempts income of residents of New York.	First $10,000—1%. $10,001–$50,000—2%. $50,001 or over—3%. (Rates reduced by ¼ in 1925 and 1926.)
North Carolina	(a) Entire net income. (b) Net income earned within the state apportioned as in the case of corporations.[6]	$1,000.	$2,000.	(d) $200.	(a) Deduction of income from another state levying an income tax.	First $2,500—1¼%. $2,501–$5,000—2%. $5,001–$7,500—2¾%. $7,501–$10,000—3½%. $10,001–$15,000—4½%. $15,001 or over—5%.
North Dakota	(a) Entire net income.	$1,000.	$2,000.	(a) under 18, or being educated, (b) $300.		First $2,000—1%. $2,001–$4,000—2%. $4,001–$6,000—3%. $6,001–$8,000—4%. $8,001–$10,000—5%. $10,001 or over—6%.

Oklahoma	(a) Entire net income. (b) Net income from all property, business, trade or profession in the state.	$3,000.	$4,000.	(a) under 18, $300; engaged in acquiring an education, $500. (d) $200.		First $10,000—¾%. $10,001–$25,000—1½%. $25,001 and over—2%.
South Carolina	(a) Entire net income. (b) Net income earned within state.[7]	$1,500.	$2,500.	(a) under 21, (b), $400.		First $2,500—1%. $2,501–$5,000—1½%. $5,001–$7,500—2½%. $7,501–$10,000—3½%. $10,001–$15,000—4½%. $15,001 or over—5%.
Virginia	(a) Entire net income. (b) Income from property, business, trade, profession or occupation in the state.	$1,000.	$2,000.	(d) $400.		First $3,000—1½%. $3,001–$5,000—2½%. $5,001 or over—3%.
Wisconsin	(a) Entire net income, provided persons engaged in business within and without the state are not taxed on income from business without the state. (b) Net income from property or business within state.[8]	$800.	$1,600.	(a) under 18, (d) $300.		First $1,000—1%. $1,001–$2,000—1¼%. $2,001–$3,000—1½%. $3,001–$4,000—1¾%. $4,001–$5,000—2%. $5,001–$6,000—2½%. $6,001–$7,000—3%. $7,001–$8,000—3½%. $8,001–$9,000—4%. $9,001–$10,000—4½%. $10,001–$11,000—5%. $11,001–$12,000—5½%. $12,001 or over—6%. Surtax on income of $3,000 and over—⅙ regular rates.

[6] The proportional amount of personal exemption allowed is determined by the same method.

[7] The taxable income of non-residents is determined by the same method of apportionment applied to foreign corporations.

[8] The Wisconsin law does not specify income from professions or occupations of non-residents. The definition of income, however, includes wages, salaries, fees, etc.

designed for large business enterprises, in which independent accounting for each state is impracticable, the method of apportionment is, for the most part, limited in its application to corporate business.

There are two other respects in which the personal and corporate income taxes differ: (1) exemptions of a flat amount of income, and (2) tax rates.

The principle of a flat exemption is not reasonably applicable to corporations.[1] It is designed to relieve from taxation the income necessary for ordinary living expenses. The state personal income taxes are similar to the federal law in that all the states provide for individual exemptions. An individual supporting a wife, or the head of a family, is allowed approximately twice the exemption of a single person, and a certain sum is exempt from taxation for each additional dependent. Delaware alone does not, under its present law, allow additional personal exemption for dependents.

There is another type of exemption allowed in the form of credits for other taxes paid. Corporations, in several states, receive such credits for other franchise taxes paid to the state. In the case of individuals, three states allow credit for income taxes paid to other states. The intent is clearly to avoid double taxation of the personal income of residents. Missouri and North Carolina exempt all income of residents upon which foreign states have levied a tax. New York exempts that part of a non-resident's income derived from New York which is taxed in the state of residence, provided such state similarly accords an exemption to the income of New York residents derived from that state.

The precedent of the federal income tax law is frequently followed in distinguishing between the rate of taxation of corporate and personal income. While only two states have progressive income taxes for corporations, nine[2] states provide progressive rates for the taxation of personal income. Of the three states levying uniform income tax rates, Massachusetts imposes different rates upon income from

[1] Mississippi alone allows such an exemption to corporations.

[2] Delaware, Mississippi, New York, North Carolina, North Dakota, Oklahoma, South Carolina, Virginia, Wisconsin.

different sources, New Hampshire taxes only interest and dividends and Missouri is subject to constitutional limitations prohibiting the application of the principle of progressive taxation.

Comparison of the Illinois Property Tax Rate with Alternative Income Tax Rates

By definition, the burden of an income tax is distributed among the taxpayers proportionally to their earnings, while the burden of a property tax is distributed proportionally to the value of property from which a part, at least, of these earnings is derived. The rate of income yield is not identical for all types of property; therefore, it is not possible to state a specified income tax rate that would represent the same burden upon all property as compared with a given property tax rate. However, arbitrary ratios of income yield may be stated, and the income tax rates that would result in equivalent burdens upon property values may then be determined. Conversely, given a determined property tax rate and a series of representative income tax rates, the income that property would have to yield for the burdens of the two taxes to be equal may be determined for each income tax rate.

Table 38: Percentage of Income Yield Necessary to Equate the Illinois 1922 Property Tax Burden with Alternative Income Taxes at Given Rates

(Source: National Industrial Conference Board)

Given Income Tax Rates	1%	2%	2¼%	3%	4%	4¼%	5%	6%	7%
Income yield necessary to equate Illinois tax with income taxes at these rates	118%	59%	47.2%	39.3%	29.5%	26.2%	23.6%	19.6%	16.9%

In Table 38 the given property tax rate has been set at $1.18 per $100 of taxable wealth—the ratio of taxes levied in Illinois to the actual value of all taxable property in the state in 1922. If all classes of taxable property in all parts of the state, and all owners of taxable property, escaped taxation and were underassessed proportionally, this rate

would represent the actual average property tax rate in Illinois in 1922.

For example, had a 3% income tax been substituted for the Illinois 1922 property tax levy, the new tax burden upon any taxable property in Illinois would have been lighter than the old property tax burden (assuming that the average rate of $1.18 on all property had been paid) unless the rate of income from that property had been greater than 39.3%. Similarly, had a 6% income tax, such as is levied in Massachusetts, been substituted, the new burden would have been lighter unless the ratio of income to property had exceeded 19.6%. These percentages are valid without further qualification for all business enterprises having all of their property within and deriving their income from Illinois, and for those which use a separate accounting system for such property and income.

If identical proportions of a corporation's property and income were attributable to states other than the taxing state and hence not subject to the taxes of this state, the ratios of Table 38 would remain unaffected. A general characteristic of state income tax laws is the apportionment of income between the taxing state and other states, usually on the basis of tangible property and business transacted within and without the state. The Illinois general property tax, as applied to domestic corporations, permits the deduction only of tangible property without the state. Consequently, for those Illinois corporations which are engaged in interstate activities the ratio of earnings to property, necessary to equalize the tax burdens, would be even higher than indicated in Table 38.

In Table 38 it was assumed that an income tax would be substituted for the Illinois property tax in its entirety. Usually, under existing state laws, an income tax on the entire net income is substituted for the property tax on intangibles or upon personalty. In the case of corporations, an income tax may not only be substituted for either of these forms of property but may, in addition, exempt the corporations from the corporate franchise or license tax. Table 39 gives the ratios of income to property at which the burden of the Illinois 1922 property tax and the

burden of substituted income taxes with given rates would be equalized, when the income tax on the entire income is substituted for given fractions of the previously taxable property. The arbitrary fractions of substitution chosen in Table 39 are 100% (in which case the situation is identical with that of Table 38), 50%, 25%, 10% and 5%. Other percentages can be calculated by multiplying the figures of the 100% column by the desired percentage.

TABLE 39: PERCENTAGE OF INCOME YIELD NECESSARY TO EQUATE THE ILLINOIS 1922 PROPERTY TAX BURDEN WITH ALTERNATIVE INCOME TAXES AT GIVEN RATES, WHEN THE INCOME TAXES ARE SUBSTITUTED FOR DEFINITE PROPORTIONS OF TAXABLE PROPERTY

(Source: National Industrial Conference Board)

Rates of Substituted Income Taxes	Fraction of the Total Taxable Property for Which Income Tax on the Entire Income is Substituted[1]				
	Entire	One-half	One-quarter	One-tenth	One-twentieth
	%	%	%	%	%
1%	118.00	59.00	29.50	11.80	5.90
2%	59.00	29.50	14.75	5.90	2.95
2½%	47.20	23.60	11.80	4.72	2.36
3%	39.33	19.67	9.83	3.93	1.97
4%	29.50	14.75	7.38	2.95	1.48
4½%	26.22	13.11	6.56	2.62	1.31
5%	23.60	11.83	5.90	2.36	1.18
6%	19.67	9.84	4.92	1.97	.98
7%	16.76	8.38	4.19	1.68	.84

[1] No account is taken of the possible exemption of income tax paying corporations from the present franchise tax. This is a provision which occurs in a number of states. Such an exemption would increase each income percentage in the table by approximately one-twenty-fourth of itself.

If a 3% income tax on entire income were substituted for the property tax on intangibles, for example, and if the proportion of a corporation's intangibles to its total taxable property were one-half, the corporation would benefit by the change, unless the ratio of its income to its total property were 19.7% or over. If its intangible property represented only one-fourth of its total taxable property, the 3% income tax would be a greater burden if its income ratio were higher than 9.8%.

It is evident that whether an income tax is more burdensome than a property tax depends upon three considerations: (1) the respective rates of the two taxes, (2) the proportion

of the property of any given individual or enterprise exempted from property taxation when the income tax is imposed, and (3) the ratio of income to taxable property for the individual or corporation in question. Should an income tax on entire income be substituted in Illinois for the property tax on intangibles, those corporations receiving even an average income yield would feel a slight burden added, unless the tax was at the very lowest rates. Business enterprises, having a higher than average income ratio to their taxable property values would very possibly find a decidedly heavier tax burden laid upon them. The severity of this added burden would be mitigated, however, by the fact that the taxable intangible assets of a corporation are likely to increase more or less in proportion to its earnings and to the expansion of its credits. This is particularly true in Illinois, because the corporate excess, taxable under the present property tax law, is computed as the value of the capital stock, plus bonded indebtedness and current indebtedness invested in tangible property in excess of the tangible property of the corporation. Not only the tangible assets of the corporation, but also its intangible value, as reflected by the market value of the capital stock, is thus included.

Excessive non-listing or underassessment or overassessment for any particular individual or enterprise were not taken account of in the preceding calculations. However, by using the figures for total *taxable* property as reported by the census rather than state assessment figures in computing the $1.18 Illinois tax rate, the average of non-listing and underassessment is taken into account, so that only exceptional cases would diverge widely from these calculations.

Relative Rate Burdens of Income Taxes and Classified Property Taxes as Substitutes for a General Property Tax

When intangible property is subjected to the low mill rates of a classified property tax, it is automatically exempted from the higher normal rates of the rest of the tax schedule. Most of the present state income taxes, enacted as substitutes for the property taxation of intangibles, apply to net income from all property, so that a direct comparison of their rates

with the rates of classified property taxes in other states is not practicable. In New Hampshire and Massachusetts, however, income taxes have been levied only on the income from intangible property exempted from the property taxes.

The New Hampshire law requires the taxation of interest and dividends at the average property tax rate during the year in which the income was received. The income tax payable in 1926 was therefore based upon a rate of $2.69 per $100 of income from intangibles. A resident of New Hampshire would therefore pay the same tax on his income as he would upon his intangible property under the Kansas law, if his rate of earnings from intangibles were 9.3%. His tax burden would be the same under the New Hampshire income tax as under the Minnesota classified property tax, if he earned 11.1% on his investment, and the same as under the classified property taxes in Rhode Island, South Dakota, Oklahoma or Connecticut, if his intangible property yielded an income of 14.8%. If the rate of earnings from intangible property in New Hampshire were 18.5% the burden of the state income tax on intangibles would be the same as under the classified property taxes in Nebraska and Kentucky and the same as in Iowa if the rate were 22.2%. It is obvious that, except in the case of low ratios of income to property, the various classified property taxes represent a greater relative burden than the New Hampshire income tax on intangibles.

The rate of the Massachusetts income tax on interest and dividends is 6%. The ratios of income to investment required to equalize the burden of the Massachusetts income tax on intangibles with the comparable classified property taxes of the various states are shown in Table 40.

The ultimate burden of the Massachusetts income tax upon intangibles would appear to be somewhat lower than the average of the classified property taxes for individuals and enterprises with a normal ratio of income to property values. The Massachusetts law, however, permits the deduction of interest on debts not secured by mortgage or tangible property. Of the nine states levying comparable classified property taxes, seven[1] do not permit the deduction

[1] Connecticut, Kansas, Kentucky, Minnesota, Nebraska, Oklahoma and Rhode Island.

TABLE 40: PER CENT RATIOS OF INCOME YIELD TO INVESTMENT REQUIRED TO EQUATE MASSACHUSETTS INCOME TAX WITH CLASSIFIED PROPERTY TAXES IN SELECTED STATES

(Source: National Industrial Conference Board)

Classified Property Tax States	Per Cent Ratio of Income Yield to Investment
Kansas	4.2
Minnesota	5.6
Rhode Island, Connecticut, South Dakota and Oklahoma	5.8
Kentucky and Nebraska	6.7
Iowa	7.5

of debts from the value of the intangibles assessed. The burden of the Massachusetts income tax is therefore lower than is indicated in Table 40 for all the states except Iowa and South Dakota.

Table 41 presents the worksheet by means of which the relative burdens of classified property taxes on intangibles may be compared with those of income taxes substituted for property taxes on intangibles. For example, a 4-mill tax on property is equivalent to a 4% income tax if the property bears an income of 10%; a 3-mill tax on property is equivalent to a 5% income tax if the property yields an income of 6%.

TABLE 41: WORKSHEET OF INCOME YIELD REQUIRED TO EQUALIZE SPECIFIED INCOME TAX RATES AND SPECIFIED LOW MILL PROPERTY TAX RATES

(Source: National Industrial Conference Board)

Specified Low Mill Property Tax Rate	Specified Income Tax Rate per $100 of Income									
	$1.00	$1.50	$2.00	$2.50	$3.00	$4.00	$4.50	$5.00	$6.00	$7.00
Mills	%	%	%	%	%	%	%	%	%	%
1.0	10.00	7.50	5.00	4.00	3.33	2.50	2.22	2.00	1.67	1.43
2.0	20.00	15.00	10.00	8.00	6.67	5.00	4.44	4.00	3.33	2.86
2.5	25.00	18.75	12.50	10.00	8.33	6.25	5.56	5.00	4.17	3.37
3.0	30.00	22.50	15.00	12.00	10.00	7.50	6.67	6.00	5.00	4.29
3.5	35.00	26.25	17.50	14.00	11.67	8.75	7.78	7.00	5.83	5.00
4.0	40.00	30.00	20.00	16.00	13.33	10.00	8.89	8.00	6.67	5.71
4.5	45.00	33.75	22.50	18.00	15.00	11.25	10.00	9.00	7.50	6.43
5.0	50.00	37.50	25.00	20.00	16.67	12.50	11.11	10.00	8.33	7.14
6.0	60.00	45.00	30.00	24.00	20.00	15.00	13.33	12.00	10.00	8.57
7.0	70.00	52.50	35.00	28.00	23.33	17.50	15.56	14.00	11.67	10.00
8.5	85.00	63.75	42.50	34.00	28.33	21.25	18.89	17.00	14.17	12.14
10.0	100.00	75.00	50.00	40.00	33.33	25.00	22.22	20.00	16.67	14.29

The per cent ratio of income yield required to equalize respective income and classified property taxes should be reduced to the proportion which the intangible assets of a taxpayer bear to the total property the income from which is taxed. It is obvious that a tax upon income from all sources imposes a greater burden on the average taxpayer than a classified property tax. Such income taxes are therefore to be preferred only when it is expressly intended to distribute the burden of taxation on the basis of ability to pay as measured by the amount and rate of income.

Summary

Three possibilities of reforming the abuses of the present Illinois property tax are: (1) to maintain the tax in its present form, but to revitalize its administration, (2) to substitute a classified property tax of one form or another, and (3) to substitute an income tax, either upon income from intangibles or upon income from all sources, for the property tax on intangibles. To adopt the second or third suggestions would not do away with the need for a thoroughgoing improvement of the tax administration, because an efficient administration is vital to the success of any system of taxation.

A reorganization of the system of local assessors and a strengthening of their powers would effect some degree of improvement in the administration of the general property tax. The root of the evil, however, is the passivity of the State Tax Commission. With a few exceptions, its powers are ample. It is the personnel that must be spurred into action.

Experience has shown that differential low rates on intangibles will be productive of greater assessment, and often of greater revenue, than when this property is subject to the uniform rates of a general property tax. Classification, with fractional assessment or discriminating low mill rates for intangibles, takes advantage of this fact. It also accords an opportunity to remove some of the ethical abuses of the general property tax by coordinating tax rates somewhat with the yield ratio of the property taxed.

An income tax upon intangibles achieves results similar

to classification, although there is a difference in the burden upon individuals or corporations according to the ratio of their income to the value of their property. Moreover, the personal income tax reaches incomes from wages and salaries, an element of tax-paying ability which the classified property tax does not reach. In one respect, tax upon income from all sources, if substituted for a property tax on intangibles, accomplishes the same results as a tax confined to income from intangibles: it obtains a revenue from intangibles that would escape the operation of a general property tax. However, it represents a shifting of the tax basis from property to income, which is an issue that must be decided on its own merits.

CHAPTER VIII

GENERAL SUMMARY AND CONCLUSIONS

IN the preceding chapters of this study the data which lie at the basis of the analysis of the fiscal problem in Illinois were presented in close coordination with the analysis itself. On the principle that the multitude of trees sometimes obscures the forest, it is possible that for some readers the illustrative data in this study may have blurred the lines of its analysis. To counteract any such tendency and to focus attention on the salient results of the inquiry it may be well to summarize here this analysis in a simple, direct form, eliminating everything but the bare conclusions reached in the earlier chapters.

It appears that the Illinois state and local governments in recent years have spent over $400 millions annually for public purposes. The share of the state government in this total is about one-fifth, and that of the local governments about four-fifths.

In recent years the expenditures of the state government have grown more rapidly than those of local authorities. In fact, from $19 millions in 1914 they increased to over $96 millions in 1925. The factors which contributed most to this increase were: (1) the present lower purchasing power of the dollar as contrasted with its pre-war value, (2) the natural expansion of governmental functions caused by the growth of population and wealth, and (3) the assumption of new functions by the state government during this period, the most notable being the program of highway construction which was begun in 1919. The importance of this third factor is indicated by the fact that nearly one-half of the net expenditures of the state government in recent years has consisted of outlays for construction of a permanent character.

In local expenditures the largest item is that of school support. The total of school expenditures in Illinois in-

creased from $41.3 millions in 1915 to $127.6 millions in 1925. The larger part of this increase is accounted for by the decreased purchasing power of the dollar on the one hand and by increased enrollment in the schools on the other hand. The "true" increase in school expenditures during this period was 45.4%. The expenditures of Illinois for school purposes in 1924 gave the state a ranking of nineteenth in the scale based on this factor; the state's ranking by ability to support education, however, was tenth.

With four-fifths of the present state and local public expenditures attributable to the local governments in the country as whole as well as in Illinois, some central control of the finances of these local governments has come to be considered essential. A study of the experiments to accomplish this end which have been made in other states, leads to the conclusion that in Illinois, for the time being, standardized county supervision would be more advisable than state control.

Much of the recent public expenditure in Illinois, particularly on the part of the state government, has been met by borrowing instead of by taxation. Compared with other states, however, the present burden of the net funded debt, which amounted to $414.6 millions in 1925, is not excessive.

On the other hand, the floating debt, composed largely of anticipatory tax warrants, particularly in the case of the local governments, is very heavy. The practice of anticipating a large part of the next year's tax collections by warrants issued in the current year gives rise to this situation.

Since so large a proportion of public expenditures has been financed by borrowing in recent years, tax collections in Illinois have not increased so rapidly as have expenditures. While in 1914 between 80% and 90% of the expenditures of the state government were covered by tax receipts, in 1925 the $48.5 millions of state taxes collected covered only slightly over 50% of that year's expenditures.

The proportion of tax revenue derived by the state from the general property tax has decreased during the twelve years 1914–1925. At present, less than one-half of the tax revenue of the state government comes from this source.

Almost all of the tax revenue of the local governments, over 90%, is derived from the general property tax. In the state as a whole it is thus the predominant factor in the public finances.

The general property tax rate in Illinois is excessively high. The average rates in the counties in 1922, on a one-half assessment, varied from $2.59 to $7.62 per $100 of assessed valuation. In 1925, there were communities in Cook County where the tax rate was over $12 per $100 of assessed valuation.

The general cause of these high rates is the non-listing and underassessment prevalent throughout the state. It is estimated that if all property were listed and assessed at its true value, the tax rates could be reduced by nearly two-thirds, and that this reduced rate would produce the same amount of revenue as at present.

The circumstances which give rise to this non-listing and underassessment are varied, and they operate with unequal force as respects land and certain types of personal property, such as capital stock.

The principal fiscal problem which faces the taxpayers of Illinois is the improvement of assessments for property taxation. The immediate reform should be a reorganization of the system of local assessment and the stimulation of the State Tax Commission into action.

There are further possibilities of improvement through the substitution of a classified property tax or of an income tax for elements of the general property tax, but the first step towards them should be to reinvigorate the present organization for the assessment and collection of taxes.

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